ABBOT GROUP plc

Annual Report and Accounts 2006

Top left: The Jupiter jack-up rig in the Gulf of Mexico

Top centre: Land rig T-61 in Germany

Top right: Central Azeri platform in the Caspian Sea

Main picture: KCA DEUTAG Rig Manager, Bert Hidding on T-67 in the Middle East

Cautionary Statement:

This document is addressed to shareholders of Abbot Group plc and has been prepared solely to provide information to assist them in assessing the Company's strategies and their potential for success, and to inform them of the Company's performance during the year ended 31 December 2006.

This document contains the Directors' Report and enhanced business review, Directors' Remuneration Report, full accounts and the Auditor's Report on those accounts.

This document contains forward-looking statements based on knowledge and information available to the directors at the date the document was prepared. Although the directors' expectations are based on reasonable assumptions, these statements should be treated with caution due to the inherent uncertainties underlying any such forward-looking information and any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

New Business

US$1.5bn

US$1.5 billion of contracts awarded in 2006

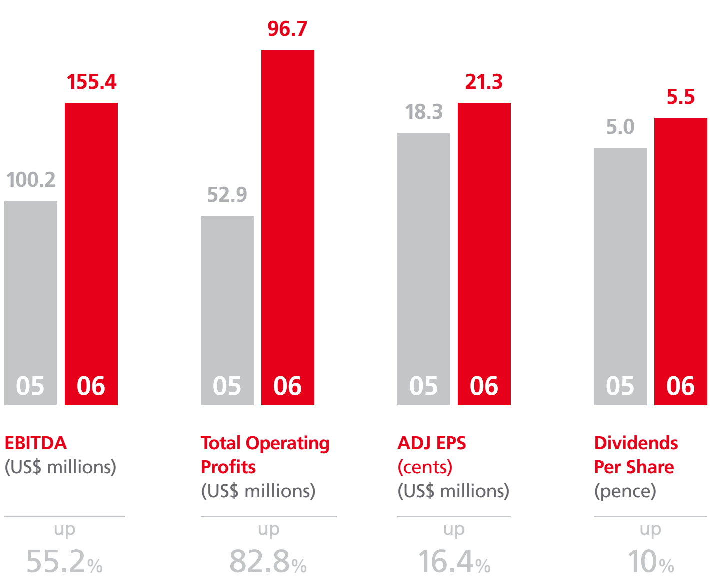
US$430m

US$430 million of contracts awarded in first quarter 2007

The Abbot Group is a leading international oil and gas services business which operates in more than 25 countries worldwide.

The Group's predominant focus is on providing development drilling services and rig operations to major oil companies in its key strategic areas of Europe, north and west Africa, the Middle East, the Caspian Sea and Russia. It is the largest offshore platform drilling contractor in the North Sea, an international operator of mobile offshore drilling units and one of the largest international land drilling contractors outside the Americas. Abbot is also a leader in the field of drilling rig design and construction and the manufacture of land drilling rigs and related components.

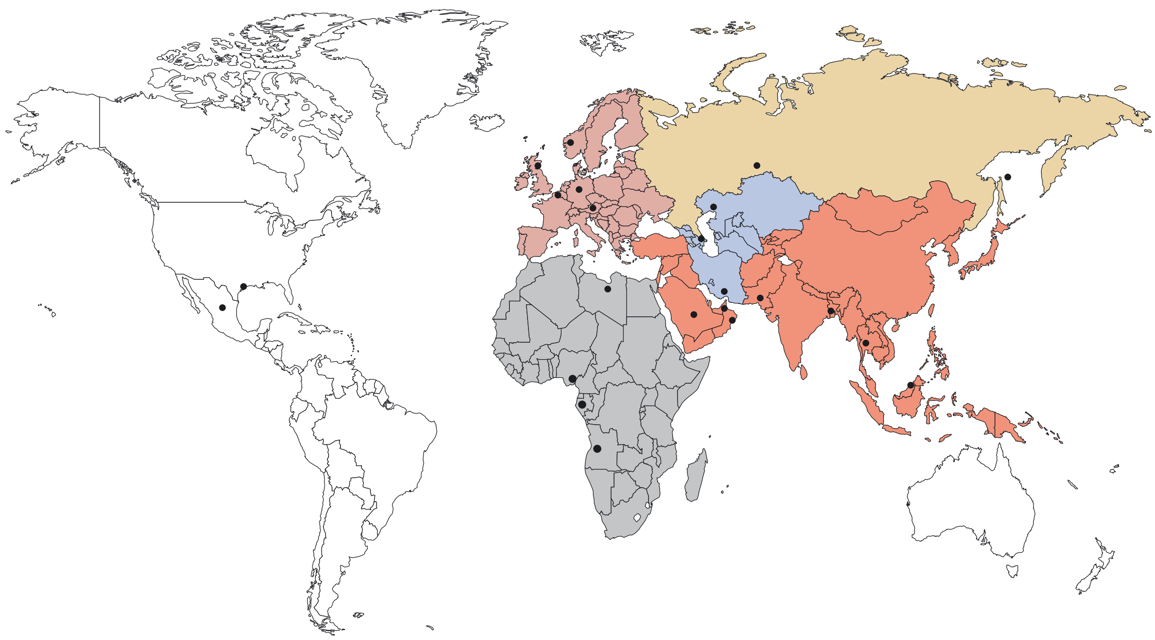
Financial Highlights



Turnover

- 69.7% Onshore and offshore
- 1.5% MODUs
- 28.8% Engineering

2006 has been an extremely positive year for Abbot. The success of our strategy of consolidating in the key future source areas for hydrocarbons and our focus on delivering the highest level of technical excellence is evidenced both by our improved profitability and by the strength of our forward order book.



Map Key

- Europe
- Russia
- Caspian Region
- Africa
- Middle East/Asia
- Operations

Europe

1888

KCA DEUTAG has been a land drilling contractor since 1888.

1st

The Company was awarded the first platform drilling contract in the North Sea in 1974 by BP for its Forties Field.

Russia

1st

The T-2000 rig was one of the first Western drilling units, fully winterised for working in sub-zero conditions, to be taken into Russia.

10

Abbot has continued to build on this initial contract and by the end of 2007 will be operating 10 land rigs in Russia.

Caspian Region

2006

The East Azeri and Shah Deniz platforms, for which KCA DEUTAG is the drilling contractor, became operational in 2006.

T-105

BP awarded KCA DEUTAG a three-year extension of its contract for its T-105 rig on the Chirag platform with two further, one-year options.

Africa

1958

KCA DEUTAG has been operating continuously in Libya since 1958 and in Nigeria for 15 years.

2006

In 2006 new work was won in Libya, Algeria, Gabon and Nigeria and offshore Angola, where the Benguela Belize platform became operational.

Middle East

1964

KCA DEUTAG commenced work in Oman.

15

After an absence of 15 years, the Company is once again operating in Saudi Arabia, following the award of contracts by Saudi Aramco and SRAK.

Asia

new

A new office was established in Thailand in preparation for the takeover of operations of the Charley Graves tender rig, contracted to Chevron in the Gulf of Thailand.

T-201

Brunei Shell Petroleum awarded a contract to KCA DEUTAG for new-build rig T-201 to undertake a two-year drilling programme with two, one-year options, in the Seria area of Brunei. Work commenced in 2006.

KCA DEUTAG Offshore Platform Rigs at March 2007

	KCA DEUTAG OPERATED	OWNED BY CLIENT	BEING COMMISSIONED
UK	Andrew, Bruce, Harding, Magnus, Miller Britannia Scott Beryl 'A', Beryl 'B' Murchison, Ninian C, Ninian N Ninian S, Tiffany Alwyn, Dunbar Kittiwake Heather, Thistle Rubicon*	BP BP BOL Nexen ExxonMobil CNR CNR Total Venture Lundin KCA DEUTAG owned	
Norway	Oseberg B, Oseberg C Oseberg South, Oseberg East Njord, Brage Linghorne Jotun Kvitebjørn	Norsk Hydro Norsk Hydro Norsk Hydro ExxonMobil ExxonMobil Statoil	
Caspian	Central Azeri, East Azeri West Azeri, Shah Deniz, Chirag	AIOC BP/AIOC KCA DEUTAG owned	Deepwater Guneshli
Sakhalin	Molikpaq	SEIC	Piltun-B SEIC Lunskoye-A SEIC
Angola	Benguela Belize	CABGOC	
Total Platform Rigs	**36**		**3**

*Demountable platform rig currently on contract to Talisman on the Montrose platform

39 Rigs in Total

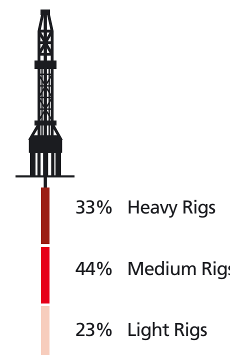
Offshore Platforms

KCA DEUTAG Land Rig Fleet at March 2007

LAND RIGS	HEAVY RIGS		MEDIUM RIGS		LIGHT RIGS		
	3,000HP	2,000HP	1,500HP	1,200 - 900HP	750 - 600HP	550 - 300HP	
Europe		T-52 T-25 T-45 T-46	T-208	T-61 T-36 W/O T-65	T-85 W/O		
Russia		T-2000	T-500 T-505 on order	T-390 T-391 T-392 on order			
Algeria			T-211 on order T-212 on order				
Libya		T-72	T-19	T-16 R-204 R-206	R-32 W/O R-40 W/O T-108	R-2 W/O R-103 W/O R-3 W/O R-104 W/O R-101 W/O T-107 W/O R-102 W/O	
Gabon				T-48 T-41			
Nigeria		T-26A T-76	T-57	T-103A	T-43		
Oman	T-51	T-63 T-77 T-78 T-80 T-210		T-44 T-66	T-55		
Saudi Arabia	T-79			T-67			
Pakistan		T-75		T-34			
Bangladesh	T-202						
Brunei			T-201				
Kazakhstan	T-47						
Under Refurbishment		T-209		T-49			
Rigs Owned	**4**	**15**	**8**	**17**	**6**	**7**	**57**
Russia **Rigs Managed**			T-501 T-502 T-503 T-504				

W/O Workover Rig

61 Rigs in Total

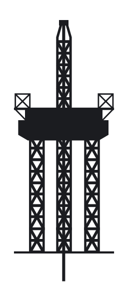


Land Rigs

Mobile Offshore Drilling Rig Fleet at March 2007

MODU	TYPE	HP RATING	WATER DEPTH (FT)
Tellus	Jack-up	2,000hp	250
Jupiter	Jack-up	3,000hp	300
Neptune	Jack-up	3,000hp	350
Searex IX*	Self-erecting tender rig	2,000hp	400
Searex X*	Self-erecting tender rig	2,000hp	450
W D Kent*	Self-erecting tender rig	2,000hp	400
Charley Graves*	Self-erecting tender rig	2,000hp	500

*Rigs Managed



MODUs

Alasdair J. D. Locke

Executive Chairman

During the year Abbot continued to make significant progress towards its goal of becoming a world leader in the field of oil and gas drilling services through its focus on building critical mass in a number of key strategic areas, both geographical and operational.

The success of this strategy is evidenced both by increasing profitability and by the high level of forward visibility which the Group has now achieved. US$1.5 billion of new or renewed contracts were secured during the year and these, combined with the US$430 million we have secured so far in 2007, means we have already secured 96% and 83% of our forecast drilling revenues for 2007 and 2008 respectively. The Group's forward order book as a whole currently stands at US$2.6 billion, with a further US$1.5 billion in optional extensions. These are much higher levels than we have ever achieved and are extremely encouraging.

The results of the Group for the year ended 31 December 2006 are as follows:

Turnover
$1,162.9 million (2005: $685.0 million) Up 69.8%

EBITDA*
$155.4 million (2005: $100.2 million) Up 55.2%

Operating profits – drilling**
$77.2 million (2005: $45.1 million) Up 71.1%

Operating profits – engineering**
$28.0 million (2005: $13.4 million) Up 109.8%

Total operating profits**
$96.7 million (2005: $52.9 million) Up 82.8%

Profit before taxation**
$55.4 million (2005: $45.9 million) Up 20.6%

Adjusted earnings per share**
21.3 cents (2005: 18.3 cents) Up 16.4%

Basic earnings per share
16.3 cents (2005: 17.5 cents) Down 6.9%

Total dividend
5.5 pence (2005: 5.0 pence) Up 10%

* Excluding exceptional items

** Excluding exceptional items and intangible asset amortisation

All of the above figures are in respect of continuing operations.

As anticipated, the acquisition of Songa Drilling in June 2006 has had a short-term dilutive effect on 2006's earnings. This is due to the fact that, whilst the consideration was paid in 2006 (and hence substantial interest costs were incurred), only one of the three jack-ups acquired generated revenue during the rest of the year whilst the other two rigs continued their refurbishment and upgrade throughout this period.

If we exclude the overall effect that the Songa acquisition has had on the Group's 2006 results, it is estimated that the adjusted earnings per share figure for 2006 would have been in excess of 25.5 cents.

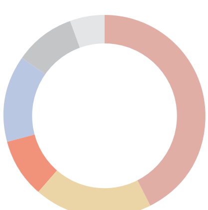
As previously indicated, the acquisition will be materially earnings enhancing in 2007, as the Jupiter will be operating for the entire year, the Neptune commences work in May and the Tellus has a binding letter of intent to start operations in May running until April 2008, when it commences a three-year contract for CNR, offshore Gabon.

Taking account of the prospects for the Group, the directors are recommending an increase in the final dividend to 3.65p (2005: 3.30p) per ordinary share, which, taken with the interim dividend already paid, would give a total distribution of 5.50p (2005: 5.00p) per ordinary share, an increase of 10%. If approved, the final dividend will be paid on 1 June 2007 to eligible shareholders on the register at 4 May 2007.

Whilst geographically Abbot is now active in over 25 countries across the world, we continue to concentrate on consolidating our position in the key strategic areas of Europe, north and west Africa, the Middle East, the Caspian area and Russia. These are regions where we believe there is considerable scope for growth for the foreseeable future, both in the short-term, for example particularly in Libya and the Middle East, and where there is a significant medium- to long-term opportunity in areas such as Sakhalin, west Africa and the Caspian. Our intention now is to grow and consolidate our position in these key geographic areas over the next three to five years and beyond.

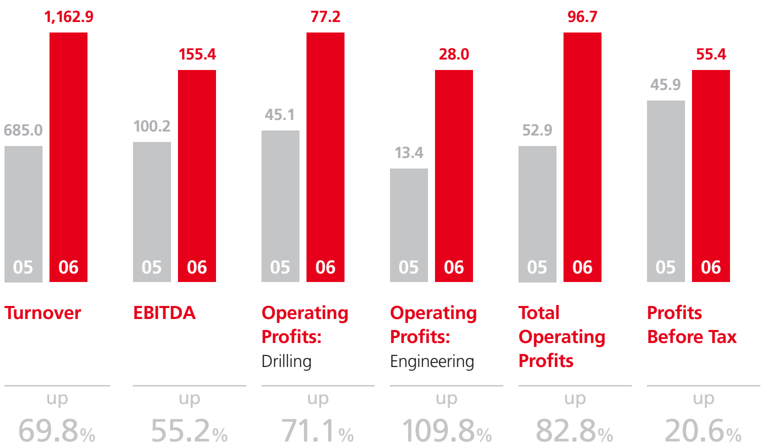
In addition, we remain focused on specific areas of operation where we are confident we can deliver world-leading technical excellence and become the 'operator of choice'. Abbot currently operates at the highest technical level in the fields of platform and land drilling, the operation of mobile offshore drilling units (MODUs),

Turnover



42.8%	Europe
18.8%	Russia
9.7%	Africa
13.9%	Caspian Region
9.3%	Middle East/Asia
5.5%	Other

(US$ millions)



drilling rig design and the construction and manufacture of land drilling rigs and related components.

In the past two years we have made two significant acquisitions, the first being Prosafe Drilling, which was acquired in August 2005 and on which I reported in my statement for the 2005 financial year. This was Prosafe's first full year of contribution to the Group and it has performed in line with expectations.

In June 2006, we acquired Songa Drilling, which provided us with three jack-up units and early entry into a market which the Group had identified as a key area of potential growth in our industry. Since acquisition, each of the rigs has completed a total refurbishment and upgrade programme. We now have a fleet of three very up-to-date and technically advanced MODUs which, building on the experience gained recently, has meant that we have been able to contract them out at rates which are considerably above those anticipated at the time of the acquisition and for longer time periods, strengthening the visibility of our future revenues.

A combination of the oil and gas industry's continued drive to deliver wells more efficiently and the requirement to constantly update and improve ageing equipment, as well as the current high demand for new equipment, has allowed our engineering subsidiaries, RDS and Bentec, to flourish.

In addition, Bentec has developed into a leader in the field of land rig and rig component design and construction, offering competitively-priced products at the highest level of technical excellence. Its success can be further characterised by the fact that we have now committed to a new facility in Tyumen in Western Siberia which will be operational in 2008. This new facility will allow Bentec to increase production in line with demand as well as providing valuable support for the Group's ambitions in the region.

Our strategy for both these businesses is to continue to reduce their dependence on Abbot related contracts and allow them to develop as successful businesses in their own right.

People

Abbot now employs over 6,000 staff worldwide and, where possible, recruits from the local population; a policy which is paying dividends in a market where one of the key constraints to growth is the ability to recruit and retain personnel. Safety of personnel is the highest priority for the Group and we continuously strive to improve our performance in this area. I would like to take this opportunity to thank each and every one of our staff for their invaluable contribution to this year's performance.

Outlook

We continue to enjoy the most favourable market conditions for drilling services which we believe are underpinned by fundamental market dynamics and that we expect to be maintained for the foreseeable future. Even if short-term volatility and cyclicality reoccurs, which we do not currently anticipate, our view of the medium- and long-term outlook for our industry remains one of opportunity and continuing growth. We have positioned our Company to enable us to show improving results on a year-by-year basis and to be able to capitalise on any opportunities that may arise, on a short-, medium- or long-term basis. We have established a strong presence in all of our core target markets, and in many instances a market-leading position, and this gives us a great deal of confidence in our ability to deliver a strong performance commercially, operationally and financially in the coming years.

Alongside our strategic focus, we have and will continue to place great emphasis on maintaining and delivering the highest technical standards and of recruiting, training and promoting employees from all the countries in which we operate throughout all our operations on a worldwide basis. We believe that these policies will enable us to achieve our ambition to be the drilling contractor of choice for our customers, not only on technical merit but also on the grounds of best industry practice.

I look forward with great confidence.

Alasdair J. D. Locke

Executive Chairman, 16 March 2007

Michael J. L. Salter

Chief Operating Officer

The Group continues to focus on concentrating and/or expanding its presence in the key territories of north and west Africa, the Middle East, Europe, Russia, the North Sea and the Caspian area.

Market Dynamics & Positioning

There are three major determinants currently affecting the Group's business today:

- The demand for oil and its current price;
- The requirement to replace oil and gas reserves as existing reservoirs deplete;
- The increased use of natural gas as a convenient fuel and the development of a world market for liquefied natural gas (LNG).

The Group's primary drilling activities have been, and continue to be, focused on development drilling. This is a much less volatile part of the market than exploration and therefore, to a large extent, insulates the Group from short-term negative downward movements in the oil price. This is further reinforced by the Group's lack of exposure to the Americas.

However, demand for oil is still increasing in both the 'developed' and 'developing' worlds, particularly India and China where the growth in demand for oil and oil-based products continues unabated.

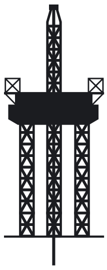
On the supply side, existing reservoirs continue to deplete and new production capacity is currently only just keeping pace with this decline. The softening in the price of oil in the final quarter of 2006 and early 2007 to around US$50/bbl is thought to have been a function of additional capacity coming on stream in west Africa and the Caspian, matched to lower demand in North America due to milder winter weather. Both of these factors are widely considered to be transient; the price of oil has already moved back up to around US$60/bbl and, despite fluctuations, the general level remains at an historically high level.

Additionally, oil companies continue to be conservative in setting their reference oil price (i.e. the threshold price for the approval of major projects) at around US$25/US$35bbl (source: Cazenove), indicating that the Group's activities would not be negatively affected unless the price was to drop very significantly from its current levels.

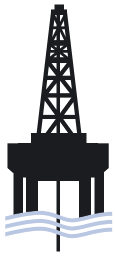
The reserves replacement issue is key to the demand/supply balance in the industry, where the current focus is on finding and exploiting more reserves to keep up with demand. Certain oil companies, also have a requirement to increase their balance sheet reserves. In either case, the primary means of confirming the presence of hydrocarbons and the subsequent method of exploitation all require wells to be drilled.

The third major influence on our business is the increasing demand for natural gas, where reserves in Europe and North America continue to decline at such a rate that approximately 25% of North American gas needs and 60% of Europe's requirement will be met through imports by 2015 (source: Simmons & Co). In Europe, production rates on the UKCS and in the Netherlands are declining to such an extent that increases in Norwegian production cannot compensate in anything other than the very short-term.

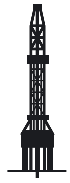
North America too is importing significant and increasing quantities of LNG, as are the emerging economies in the Far East. Demand for the commodity has created a fully developed global market where contracts for delivery are written with diversion clauses as standard, allowing the vendor to take advantage of likely price variations.



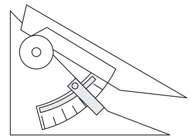
MODUs



Platform drilling



Land drilling



Engineering, design and land rig construction

Group Strategy

The major source areas for future oil supplies and for supplies in natural gas and LNG are the Middle East, north and west Africa and Russia. Abbot is particularly well positioned in these strategic areas and we therefore have a high level of confidence that our continued investment and focus on them will be of enormous benefit going forward.

The Group continues to focus on concentrating and/or expanding its presence in the key territories of north and west Africa, the Middle East, Europe, Russia, the North Sea and the Caspian area. We are notably absent from the North American market which the Group believes is not only saturated by other contractors but is also more volatile and more short-term than our chosen areas of operations. We continue to build capability in our key areas through the strategic concentration of equipment by investing in new rigs, the refurbishment and upgrading of existing equipment and training personnel to ensure KCA DEUTAG remains the 'Drilling Contractor of Choice'.

Having entered the important MODU market with the acquisition of Songa Drilling in June 2006, the Group is now focused on the provision of our four service lines:

- Land drilling
- Platform drilling
- MODUs
- Engineering, design and land rig construction.

The MODU market is a key area of growth for the business as it furthers the Group's strategic focus on development, rather than exploration drilling.

Our proven ability to deliver safe, effective, trouble-free operations, on-time delivery and reliability of performance continues to make the Group distinct from a large number of its competitors.

Strategic and considered investment decisions based on portfolios of opportunities in particular areas will continue to be made, especially where they provide the Group with a clear competitive advantage with regard to equipment availability. We also aim to adapt the Group's strategy wherever practicable to take maximum advantage of market conditions with respect to increases in day rates and to strengthen the Group's position in its key strategic areas.

Future Oil and Gas

The major source areas for future oil supplies and for supplies in natural gas and LNG are the Middle East, north and west Africa and Russia. Abbot is particularly well positioned in these strategic areas and we therefore have a high level of confidence that our continued investment and focus on these areas will be of enormous benefit going forward.

Investing

Onshore

We are committed to investing in new-build rigs to meet the requirements of clients in our key target markets.

T-208 working in Austria

NOMAD

In March 2006, KCA DEUTAG commissioned its sister company Bentec to design and construct two rigs which are the first of many to be built to a standardised design called the 'Nomad' class.

These rigs have been developed with a 'plug and play' approach to suit client requirements, for example a third mud pump and/or generator set may be added. They have an enhanced rig specification including high rig mobility, special HSE features such as anti-collision system, iron roughneck and dedicated man-rider winch, a 1 million lbs hook load rating, NOV TDS 11-SA top drive system, Wirth or Bentec 1,500 or 2,000hp drawworks and three Wirth 1,600hp mud pumps.

The rigs are packaged to achieve fast rig move times over flat terrain conditions and can also be disassembled into smaller rig packages for moves over sand dune conditions.

NOMAD

MARKET DEMAND:	Highly mobile drilling rigs for desert terrain
RIG DESIGN/BUILD:	Bentec
CONTRACT:	BP/Sonatrach for two Nomad Class rigs
LOCATION:	Algeria, North Africa
DURATION:	One year with options, commencing fourth quarter 2007

HR-5000

At the end of 2005, KCA DEUTAG was awarded a contract by TNK-BP to build four, fast-moving hybrid development drilling rigs to support TNK-BP's operations in the Uvat region, Tyumen Oblast, Western Siberia. Built by Bentec, the rigs will begin operating in Western Siberia in Q2 2007 under a five-year contract.

Bentec was also awarded a contract by Eurasia Drilling for four 250 tonne fast-moving hybrid rigs, derived from the original HR-5000 design. This contract brought the total number of rigs under construction by Bentec in 2006 to 10.

The Bentec design of this specialised high capacity, winterised unit has been developed specially for the Russian market. The 1,500hp HR-5000 is designed for operating on 'cluster' locations, with a full winterisation package incorporated into the design. All direct drilling related sub-systems are installed on a rail track, allowing fast skidding in one direction. The skidding movement is predetermined in one direction on each location to match the pad layout and well head positions. Repositioning the drilling rig and its auxiliary components is fast and reduces overall time.

The rig contains a derrick with 320 mt hook load capacity and a foldable substructure. Additional equipment is installed on winterised trolleys, which move with the mast and substructure during rig skidding.

The rig can move in a 40km radius within 18 days, weather and road conditions permitting.

HR-5000

MARKET DEMAND:	Winterised, hybrid drilling rig
RIG DESIGN/BUILD:	Bentec
RIGS:	Six rigs in total, T-505 being built and will arrive in Russia mid-2007
CONTRACT:	TNK-BP for four hybrid rigs, T-501, T-502, T-503 and T-504
LOCATION:	Tyumen Oblast, Western Siberia
DURATION:	Five years, commencing Q2 2007

CONTRACT:	T-500 with Achimgaz
LOCATION:	Northern Siberia
DURATION:	Three well programme, started June 2006

T-208

At the end of May 2006, T-208, Europe's most modern, modular, fast-moving drilling rig, started operations, drilling appraisal and exploration wells in OMV's Vienna Field, as part of a three-year contract to increase oil and gas production from the field. The first well, named Ebenthal (Tief 2) has a planned depth of 3,700m.

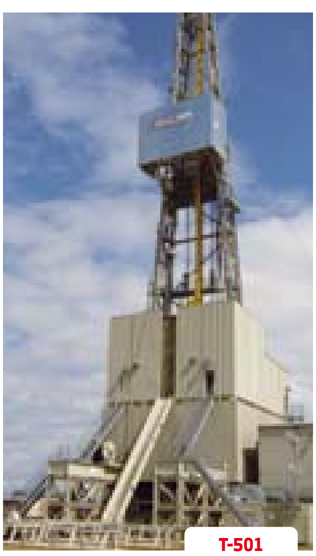
Designed and built in only one year, T-208 can be operated using the electricity main grid or with its own generator sets, and due to its modular construction, can be moved very cost-effectively on to small locations. The rig is completely sound-proofed, fulfilling the latest environmental standards, allowing it to operate in sensitive areas.

Equipped with a 1,500hp drawworks and a hook load capacity of 347mt, the T-208 is designed to a modular concept which allows for high flexibility and mobility. ATEX certified, allowing operation in the European market, the rig has a top drive, iron roughneck, 4-Q system, VFD control unit (AC) and three mud pumps.

T-208

MARKET DEMAND:	Modular, fast-moving land rig
RIG DESIGN/BUILD:	Bentec
CONTRACT:	OMV
LOCATION:	Austria, Europe
DURATION:	Three years with extension options, commenced May 2006

Europe: Austria



Russia: Siberia

Onshore

Europe

Operations in Europe provide a good counterweight to other global developments in the oil and gas sector. It is a stable and safe environment with no sovereign risk, which also offers healthy day rates on long-term frame agreements. At the same time, running costs in the region are not experiencing the same cost increase pressures as other areas and we find that European operations are as profitable as most other locations around the world.

Austria

We are witnessing an upsurge of work in this area, driven by OMV's discovery, in April 2005, of the largest gas field in the Vienna basin for 20 years.

In May 2006, the Group delivered the Bentec-built T-208 rig on time and budget to OMV and we are now operating the rig on a three-year US$30 million contract. At the same time OMV also awarded the Group a contract for its T-65 rig which has now finished its upgrade by Bentec. Before being mobilised to OMV in May 2007, T-65 will first be deployed for a one well project with Wintershall in north Germany. Together with T-52, the Group will be operating three rigs in Austria by mid-2007.

Germany

Our T-49 rig has redeployed from Dubai to Germany under a two and a half year contract with EWE to carry out gas storage drilling. There has been an increase in this type of drilling as Europeans focus on stockpiling gas reserves as a strategic measure to counter potential concerns over supplies from Russia.

During the period we also negotiated the renewal of two long-term, three-year framework contracts with EMPG utilising our T-61 and T-25 rigs. These became effective on 1 January 2007.

Netherlands

The Group's T-46 heavy rig continued operations with NAM throughout the year. T-46 will finish its work with NAM during the second quarter 2007 and will be moved to Germany to work for EWE.

Switzerland

Our T-45 rig completed a geothermal well-drilling project for Geopower in Basel, Switzerland. This type of project involves drilling two holes roughly five kilometres apart. Water is pumped into one well and is naturally heated underground; the resultant steam exits the other well via a turbine which is used to generate electricity. The first well has been drilled successfully and the acquired data is currently being evaluated. T-45 is now back in Germany working for Gaz de France on a two well oil and gas project.

The Group has also carried out similar geothermal operations in Denmark and Sweden. While this type of activity is by no means a core business for the Group, it does provide Abbot with a reputation in this area and a level of experience which will be invaluable as the world continues to shift its focus onto more environmentally-friendly sources of energy. We are therefore keen to explore further opportunities in this area.

Russia

During 2006, we continued the successful expansion of our operations in Russia following the opening of a major operations base in Tyumen, Western Siberia, to oversee all our Siberian operations. This underlines the Group's strategy of growing critical mass in specific areas by providing a concentration of rigs which can be serviced through local offices and engineering support. We are also developing a training centre in the same location.

Western Siberia

In the second quarter of 2006 we successfully commenced operations in Novyi Urengoi with our T-500 rig on a three well contract for Achimgaz (Wintershall/Gazprom).

Our operations for Shell in Salym continued successfully with the Group being awarded Shell's Ferrari Trophy for delivering a world-class performance. Our T-390 and T-391 rigs are on contract there until the summer of 2009, where they will be joined in May 2007 by T-392, a new rig which is currently under construction.

We also mobilised three new Bentec-built HR-5000 rigs to a staging area near the Demianskiy field. The fourth unit, the T-501, has been operating for TNK-BP as a training rig in Tyumen since June last year. All four rigs, which are owned by TNK-BP, are currently being mobilised into the Demianskiy field to operate under a five-year operating and maintenance contract.

Eastern Siberia

Our T-2000 rig has now arrived in the area and will be operational by the end of March 2007 under contract to VCNG (TNK-BP/Rosneft). This rig was destined for Sakhalin but plans had to be reviewed due to the narrow weather window available for transporting heavy equipment into the area. As a result the Group received a payment for its costs and for the early termination of its contract.

The Group sees Eastern Siberia as an area for potential development for the future.

Sakhalin

Our T-41 land rig arrived from Brunei to drill a two well programme for Shell. This was successfully completed and the rig is now on its way to Gabon.

Middle East and Asia

Kingdom of Saudi Arabia

One of the big stories in 2006 for Abbot in the Middle East was that, after an absence of some 15 years, the Group is once again operating in Saudi Arabia. Overcoming manpower issues (in an area with a well-known shortage of skilled personnel), a complex visa system and the country's harsh geography to get the operation running, was an achievement of which the team can be justifiably proud. The net result for the Group is that we have two rigs drilling in the region, one with Saudi Aramco (T-67), on a three-year, US$21 million contract, the other with SRAK (T-79), on a one and a half year, US$20 million contract.

Saudi Arabia is currently increasing its drilling operations as a means of both maintaining production and replacing the Kingdom's reserves, and also to exploit gas reserves for internal consumption as well as for export. We therefore see further opportunities to build on our presence in country.

Sultanate of Oman

In Oman, the Group is again seeing its operations grow as drilling activity has increased to both keep up with global demand and to replenish reserves. Abbot now has eight rigs under operation with PDO, which itself has some 30 to 40 rigs operating in the region and, since January 2007, we have a further rig operating for EnCana. In addition, we are also seeing other clients, such as BP, BG and Occidental, increasing their presence in the area, which should provide further opportunities for the Group in the future.

Iran

In December 2006 we successfully completed our contract for Norsk Hydro in Iran and are currently progressing negotiations with regard to further opportunities in the area. Whilst on a political level, the country is viewed with some caution, Iran does have the world's second largest oil and gas reserves. In addition, its current drilling infrastructure is in need of upgrade and requires ongoing maintenance, so there can be no doubt about its future in our market or of the size of opportunity it presents.

Pakistan

The Group's 2,000hp rig, T-75, continued its work for MOL, where it is under contract for another year. Additionally, our T-34 rig extended its contract with BP until mid-2008.

Sultanate of Brunei

Our T-201 rig successfully commenced operations here in May 2006 under a three-year contract with Shell (Brunei). Whilst Brunei is not a core area for the Group, this contract does demonstrate our ability to undertake stand-alone projects where there is a demand from our clients and/or a longer-term financial and operational benefit for the Group.

Africa

West Africa

Our west African team, whose operations currently focus on Nigeria and Gabon, were awarded significant contracts during the period. Our T-41 rig is being mobilised from Sakhalin to Gabon, to operate on a one-year contract plus extension options with Pan Africa.

In addition, we won contracts for two years, with options to extend, for two rigs to begin operations in Nigeria. T-209, a brand new rig, which was built in Jebel Ali, starts operations for Shell in the third quarter of 2007 and, in line with our strategy of concentrating our assets in key areas, T-103, which has just finished a contract in Pakistan, is mobilising to the area to commence operations in the first half of 2007.

North Africa

Algeria

Aside from Russia, Algeria is arguably the most important supplier of natural gas to Europe and, with around 70 operating rigs, is the biggest drilling market in the region. The necessary pipeline infrastructure, ensuring delivery to Europe, is in place and the country has become both politically and economically more stable over the last five years.

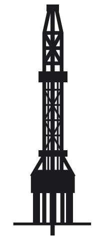
For these reasons we see Algeria as a place of great opportunity and in 2006 were pleased to have been awarded a gas-drilling contract with BP, utilising two new Bentec-built Nomad rigs, which will commence in the third quarter of 2007. Whilst Abbot does not build rigs on a speculative basis, it is important to note that the decision to build these rigs was based on the Group being presented with a portfolio of opportunities where contracts were dependent on our ability to guarantee the delivery of equipment within a short timeframe.

The Group's strategy is to increase its presence in Algeria to at least five rigs over the next three years and we are in the process of setting up an office in Hassi Messaoud to provide operational support to our ambitions in the country.

Libya

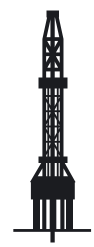
Abbot has operated in Libya continuously for nearly 50 years. The ongoing positive social, political and economic trends mark the country out as a place where we want to continue to leverage our experience to consolidate our position. As part of our strategy to upgrade and replenish our Libyan fleet we are decommissioning three of Abbot's older rigs, which are lighter and of lower capacity.

We are deploying two heavy rigs, T-19, which is going in country with RWE for one well before being contracted to Verenex for a one-year contract, and T-202, which is being deployed to Libya from Bangladesh, where it is completing a contract for Chevron, to commence a three-year contract with Shell. We will then shut down our operations in Bangladesh.



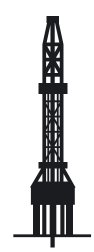
9 rigs

Oman



10 rigs

Russia



15 rigs

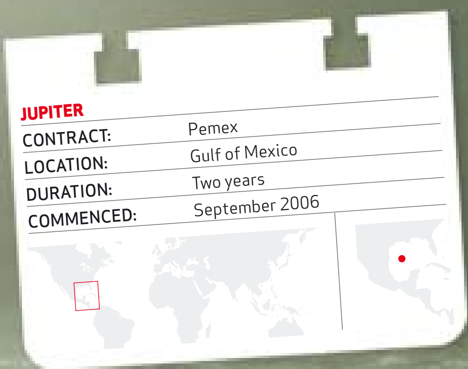
Libya

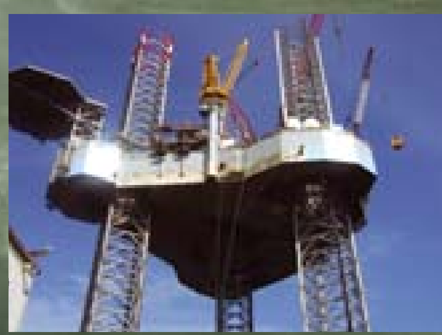
Investing

Offshore

We continue to extend our rig portfolio through acquisition to meet the challenge of increasing demand for rigs worldwide.

In June 2006, Abbot Group acquired Norwegian company Songa Drilling, owner of three jack-up rigs, the Songa Tellus, the Songa Jupiter and the Songa Neptune. All three rigs were refurbished and upgraded in the US and are being renamed the Ben Avon, Ben Loyal and Ben Rinnes respectively. KCA DEUTAG also manages the Thule Power jack-up drilling rig, owned by Thule Drilling AS, under a four-year (with one-year option) US$222 million contract with Saudi Aramco for a drilling programme offshore Saudi Arabia commencing quarter two 2007.





JUPITER

The jack-up rig Jupiter commenced operations in Mexico for its national oil company Pemex's Cantarell field in September 2006 after its 644 nautical mile tow from the Sabine Pass, Texas, USA.

The drilling contract has a duration of two years and provides for a day rate of US$145,000 together with a fee of US$2million for the mobilisation of the rig to Mexican waters. Pemex is also providing a substantial number of the required crews, which will reduce the Group's operating costs.

NEPTUNE

In December 2006 KCA DEUTAG was awarded a three-year contract, with options from CABGOC, for its Neptune jack-up rig. Valued at US$225 million, this contract is due to commence in the second quarter of 2007 at a day rate of US$190,000. The rig will be mobilised to Angola from the Gulf of Mexico for a fee of US$15million to be paid by the operator.

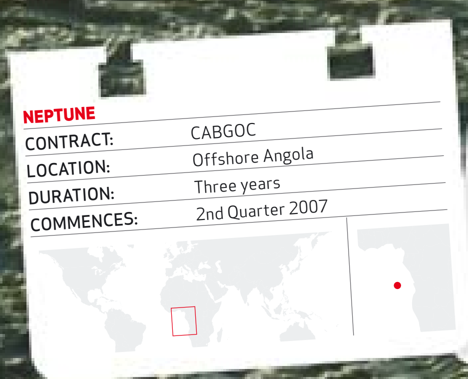
The heavy lift vessel 'Transhelf' has been contracted to effect the mobilisation with an estimated departure from the Gulf of Mexico during March, following completion of the rig's upgrade programme.

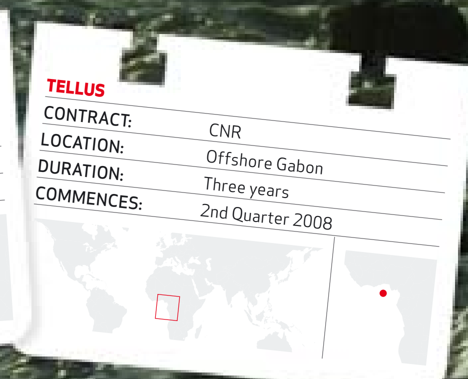
TELLUS

Tellus commences operations in CNR's Olowi field, offshore Gabon, in the second quarter of 2008. The three-year contract is valued at US$170 million.

CNR is an important, existing client for KCA DEUTAG with five platform rigs under contract in the North Sea. This contract will significantly augment the Group's operations in Gabon where the Company currently has two land rigs on contract to Pan Africa.

The rig has also been awarded a binding letter of intent in west Africa to 'fill in' ahead of the commencement of the CNR contract, and will mobilise to the area together with the Neptune on board the Transhelf barge.





Offshore

North Sea

Activity levels on platforms in the UK increased to 10 operating rigs by the end of the year while in Norway activities levels were maintained, with operations on six operating platforms. Projections for 2007 indicate fluctuating levels of activity in the UK and a slight increase in Norway. The region remains a core business area for the Group, providing a source of good people to support our worldwide operations. The largest clients in the region include Norsk Hydro, CNR, BP and ExxonMobil.

The Rubicon, a lightweight modular drilling and workover rig acquired at the time of the Prosafe Drilling acquisition, is currently on a standby agreement with Talisman on the Montrose platform, where it will be reactivated later in 2007.

Caspian

The Group's operations in the Caspian have progressed successfully and are focused principally on activities in Kazakhstan and in Azerbaijan, where we are the only Western platform drilling operator.

In Kazakhstan, T-47 was drilling in very shallow water from an artificial island for the entire year under contract to AGIP KCO. This contract was extended on 1 October 2006 for one year with a value of US$20 million.

In Azerbaijan, we experienced significant growth in our operations, commencing drilling on two new platforms in 2006, bringing the Group's total in the area to five; four contracted to AIOC and one to BP. At the same time we increased our staff levels in the region to around 560.

A further platform, Deepwater Guneshli, is due to commence operating by November 2007, again for AIOC. This will bring the total to six rigs in the Caspian all of which are contracted until at least 2010, and in some cases 2012, providing a strong line of visible forward earnings and further consolidating the Group's position in the area.

There are very significant plans for more developments in this area, providing many opportunities for which we are well placed to take advantage.

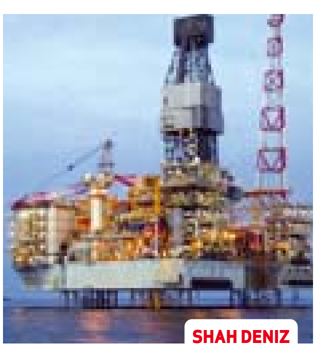
Sakhalin

Sakhalin has been the centre of an enormous amount of attention during the past year regarding the relationship between the Russian Government and Gazprom on one side and Shell on the other, which has resulted in Shell retaining a reduced share in the fields it is operating. Shell has, however, retained management of its Sakhalin operations and from the Group's point of view our contracts are sound and we should continue with business as usual.

During 2006 we continued to support Shell for the Sakhalin project, particularly with the construction and hook-up activity of the Lunskoye and Piltun platforms. In addition, we also set up a training school in Sakhalin in co-operation with Shell, using the Group's DART training simulator. This has enabled us to recruit, train and employ a significant local workforce.

Angola

The new-build platform, Benguela Belize, commenced drilling operations offshore Angola for CABGOC under a five-year contract which commenced in October 2005. RDS designed the rig and project managed its construction in Houston in co-operation with NOV. CABGOC then transported it to Angola where the Group took over the management of drilling operations.



Caspian

The Shah Deniz platform commenced operating for BP in November 2006.

Mobile Offshore Drilling Units (MODUs)

Jack-Up Rigs

In June 2006, we completed the acquisition of the Norwegian company Songa Drilling, which brought three jack-up rigs into the Group, Tellus, Jupiter and Neptune, rated at 250 feet, 300 feet and 350 feet respectively. The acquisition allowed Abbot to enter this market early in the cycle, independent of new build schedules which would have meant deliveries in 2008 or 2009 and beyond.

At the time of acquisition, a number of assumptions were made about potential day rates and the timing of contracts for each of the three rigs, which are in the process of being re-named, Ben Avon (Tellus), Ben Loyal (Jupiter) and Ben Rinnes (Neptune).

The Jupiter's schedule was met in respect of timing and it was contracted to Pemex in the Gulf of Mexico from September 2006 for two years. On contract expiry, we will review the best available options for its placement either in the Gulf of Mexico or elsewhere within the Group's focused areas of operations.

Whilst the refurbishment programmes for the remaining two jack-ups have taken longer than anticipated, both of these now have contracts in west Africa, further consolidating the Group's position there. In December the Neptune was contracted to CABGOC for three years offshore Angola, commencing in the second quarter of this year, and earlier in 2007, we announced that the Tellus had won a three-year contract, commencing second quarter 2008, with CNR working in the Olowi field, offshore Gabon. The rig also has a binding letter of intent for a contract at attractive rates to 'fill in' ahead of the commencement of the CNR contract.

The total value of these contracts is just over US$560 million and in each case contracts were negotiated at day rates which are significantly higher than those projected at the time of acquisition.

Our position as a qualified operator of jack-up rigs was underlined when the Group won a four-year contract in Saudi Arabia with Saudi Aramco which will utilise the Thule Power, a 250ft jack-up under a management contract with its owners. This contract, which is scheduled to start in the second quarter 2007, provides the Group with a presence in MODU operation in the Middle East, whilst also earning attractive rates and incentive payments.

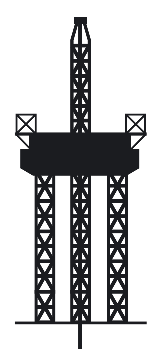
We continue to look for options for expanding our presence in the MODU market, preferably in our chosen strategic areas across the globe, by building on the successful track record and credibility we have achieved to date.

Self-Erecting Tender Rigs (SETRs)

In the second half of 2006 we made a 10% equity investment in four barge-based SETRs which can operate in relatively benign waters off west Africa and certain parts of the Far East. The deal provides us with the dual benefits of being an equity partner and earning revenues derived from the attractive day rates received through the management of the rigs.

Of the four rigs the Searex X is currently on contract in Angola; it will then fulfil a contract in the Ivory Coast in May 2007 before moving to south east Asia, in September 2007, for refurbishment followed by an anticipated long-term contract. The Searex IX and W D Kent rigs are being refurbished and upgraded in Malaysia. The W D Kent has a follow-on contract in Thailand with an established operator and the Searex IX will also be put to work under contract in south east Asia. The Charley Graves is in Thailand on contract to Chevron, with whom it has a follow-on contract at improved day rates until April 2008 with discussions ongoing about possible extensions.

These investments are a major step forward for the Group as the assets are designated for development drilling where long-term contracts are implicit.



3 jack-up rigs

Acquisition: June 2006

In June 2006, we completed the acquisition of the Norwegian company Songa Drilling, which brought three jack-up rigs into the Group, Tellus, Jupiter and Neptune, rated at 250 feet, 300 feet and 350 feet water depth respectively.

Engineering

RDS

KCA DEUTAG's engineering division, which, following the acquisition of the business of Rig Design Services in 2004, was recently rebranded 'RDS', has been increasingly busy over 2006, experiencing an upsurge in offshore, greenfield and brownfield engineering projects.

In Azerbaijan, both the Shah Deniz and East Azeri rigs for BP/AIOC were successfully completed and handed over for operations, on schedule, in June and September 2006 respectively.

The Deepwater Guneshli rig is currently undergoing final module assembly in Baku and is on schedule for operations start-up in November 2007. An engineering office was also opened in Baku to provide brownfield engineering support services. In line with the Group's desire to recruit and train local staff, 50% of personnel currently employed at this office are Azeri nationals.

In support of the Sakhalin projects, engineering teams based in Korea continued to provide support during construction and commissioning phases of the Lunskoye and Piltun drilling facilities.

More than a dozen new front end engineering design (FEED) studies were started for both fixed platform and mobile rigs covering locations across the Gulf of Mexico, Norway, UKCS and the Far East. A number of these studies are expected to lead into major detailed engineering contracts for this complex work in 2007.

In the North Sea, in both Norway and the UK, our brownfield workload has continued to grow with much operator interest in extended reach drilling. RDS is now carrying out projects and studies on a number of platform rigs to increase their performance and extend operational life.

As an example, in the UK a large multi-million dollar contract was won from Lundin Britain Ltd to refurbish and re-activate a rig which has not been operated on the Thistle Alpha platform for over 15 years. Operation is due to commence in December 2007.

In 2006, RDS also commenced an engineering contract for a semi-submersible drilling rig commissioned by SeaDragon Offshore Limited to address the chronic global shortage of deep-water, harsh environment semi-submersible rigs.

The first of the units, which will be assembled on Teesside on hulls acquired from the Sevmash shipyard in Russia, is due for delivery in 2009.

Company wide, a new integrated operations structure has been developed to more closely connect RDS's London, Stavanger and Aberdeen engineering offices enabling them to share resources, where necessary, to handle the larger and more complex study or project work.

Additionally, in response to its growing order book and size, RDS moved its London office to larger, more modern premises in Old Street, London in October 2006.

Bentec

Bentec, our design, engineering and rig fabrication subsidiary, has grown dramatically over the year as a result of the strategy designed to grow it into an independent stand-alone commercial business operating competitively in the open market, rather than simply as a feeder for the Group's requirements.

It is currently operating near capacity at its premises in Bad Bentheim and Nordhorn in Germany. Its order intake in 2006 reached almost US$250 million and the forward order book looks extremely robust.

In addition, and in the longer-term of more significance, Bentec's international reputation for rig design and construction continued to flourish, as it established itself in the market for rig component and technology design and manufacture. It recently completed its first sale of a Bentec 1,500hp drawworks as a single component, with a further nine being sold as part of rig packages. Whilst this product is at the top level in terms of quality and robustness, competitive pricing has led to it receiving a lot of attention from other interested parties.

An increased design and production capacity is an important part of Bentec's portfolio of expertise. The Company continues to increase the scope of more technical work it can undertake in-house, providing tighter controls over timings and budget, as well as increased margins, whilst at the same time outsourcing lower value manufacture.

In 2006, Bentec delivered five completed rigs, on time and on budget.

A 350 tonne AC rig was consigned to OMV in May 2006 for utilisation in the Vienna basin gas fields. Two HR-5000 rigs were delivered at the beginning of 2006 to KCA DEUTAG in western Siberia, one to operate under contract to Achimgaz, the second to operate for TNK-BP as a training rig in Tyumen, prior to working in the Uvat field in 2007. These are hybrid rigs designed specifically to operate in arctic temperatures.

The balance of the rigs completed and delivered were the second and third of a series of four from a substantial contract awarded to Bentec by KCA DEUTAG to develop highly-specialised winterised hybrid drilling rigs to support TNK-BP's operations in western Siberia. This unique field-proven design can operate comprehensively at temperatures ranging from +45°C to -45°C and breaks down into modules designed to be transported by the Russian railway system, as well as by truck.

Bentec's standing as an innovative systems manufacturer and rig builder, able to complete sizeable contracts on time and on budget has led to significant levels of activity for 2007. This is valued at approximately US$165 million for nine rigs, including five winterised rigs for Russia, two highly mobile desert Nomad rigs and a highly mobile European rig similar to the T-208.

Spear

The Group's interest in Spear Technologies Inc. was disposed of in April 2006 to a California-based investment group.

Safety

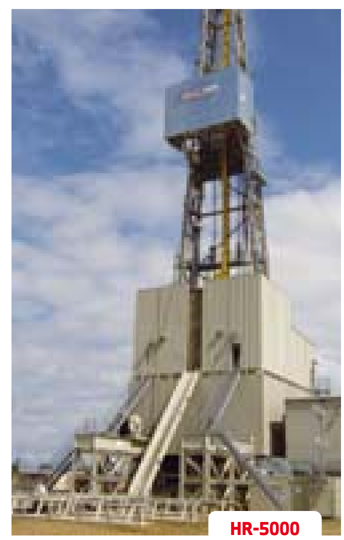
We continue in our commitment to deliver safe, effective and trouble-free operations in all Group activities. Careful consideration is given to providing the resources and leadership required to maintain a safe place and safe systems of work in all our operations.

The Group is committed to continuously improving its safety performance and set a target for Total Recordable Incident Rate (TRIR) of 0.8 per 200,000 man hours worked in 2006. Our result for the year was a TRIR of 1.05, a flat performance when compared to 2005, which reflects the challenges associated with recruiting, training and deploying 1,200 new staff during 2006. It also highlights the importance of our training and induction progress in maintaining a performance which compares very favourably with our industry (International Association of Drilling Contractors) figure of 2.19 for 2006.

The Group is committed to operating with 'no harm to people' and the fact that this is an achievable objective is demonstrated by the high number of our drilling rigs and engineering projects which have operated for several years without recordable incident or injury. In our continuing efforts to improve our safety performance, we will further invest in our own specialised training programme under the 'Safe2Lead' banner. In 2006 over 300 staff were trained in techniques designed to improve the safety and integrity of our operations and, in 2007, we plan to run a further 20 Safe2Lead courses training more than 500 staff. In addition, during 2007, we will train and deploy 24 Rig Safety and Training Coaches (RSTC) to our expanding operations.

SeaDragon Contract

In 2006, RDS also commenced an engineering contract for a semi-submersible drilling rig commissioned by SeaDragon Offshore Limited to address the chronic global shortage of deep-water, harsh environment exploration rigs.



Rigs Delivered

Two HR-5000 rigs were delivered at the beginning of 2006 to KCA DEUTAG in north western Siberia. These are hybrid rigs designed specifically to operate in arctic temperatures.

Incident Rate

The Group is committed to continuously improving its safety performance and achieved a Total Recordable Incident Rate (TRIR) of 1.05 per 200,000 man hours worked in 2006.

Group Employment

The Group employs approximately 6,000 staff, a figure which will rise in 2007 to support the growth of ongoing operations and new start-ups in a number of areas.

Risks and Uncertainties

The potential and existing risks and uncertainties facing Abbot are monitored continuously by the Group's Risk Committee, which reports to the Board twice yearly. It maintains an ongoing assessment of factors including market conditions, the price of oil and gas, competition, geography and resources, as well as the political and economic situations of the regions in which Abbot is active.

Even with the recent small reduction in the price of oil, levels remain well above historic averages and, more importantly, well above the threshold level set by the oil majors when considering an investment. As a result, the demand for Abbot's services remains strong and we see no short- or medium-term risk to the level of business opportunities or the utilisation of our assets.

The current strong, demand-led market environment also reduces greatly Abbot's exposure to contractual risk, as it enables the Group to negotiate more equitable risk apportionment in contracts. Additionally, we are currently able to ameliorate certain specific risks, such as early termination, in a number of our land rig contracts.

As a global business, the Group must monitor and assess the varying degrees of political and economic stability across the jurisdictions in which it operates, ensuring that the management is appraised of all developments, which may adversely affect either its business and/or the security of personnel. We utilise the services of professionals to expertly assess these risks and to advise on precautions or plans of action.

For example, in 2006, Nigeria experienced significant political upheaval and, despite much media attention on the potential consequences for the Nigerian oil industry, our operations and personnel were largely unaffected with operations curtailed only briefly – on a purely precautionary basis – on very few occasions.

In 2001 Abbot withdrew from operations in Algeria primarily as a result of weak market conditions. Whilst the country experienced considerable internal political unrest during the mid to late 1990s, particularly in the conurbations in the north of the country, it has subsequently experienced, over the last two years in particular, a sustained period of stability, with prospects for further positive developments. In addition, as outlined earlier in this document, the country has become an important player in the world market for natural gas, especially in the supply of European markets. This, and the demonstrable improvements in the country's political stability, led the Group to re-enter the market in 2007. The Group won contracts to supply and operate two newly-built Nomad rigs for BP and will continue to seek further opportunities to work in the country.

Iran experienced a number of well-documented commercial and political issues during 2006. By December, the Group had successfully completed its contracts with Total and Norsk Hydro in country. Iran presents operators with a number of unique circumstances and challenges which we have learnt to deal with effectively over the last five years. Iran continues to offer a number of opportunities to work with Western clients, which the Group is ideally placed to fulfil and, in the event that the Group re-enters the country, it will be on the basis of a business model which is suitably modified in the light of that experience.

As a direct result of the worldwide expansion of the oil and gas services market, a very significant risk to anyone operating in the sector is the recruitment, development and retention of personnel. The Group has specific strategies for meeting this challenge and alleviating this very real risk to the growth of the business. Further details are to be found elsewhere in this report.

Finally competitive risks to the business are shifting. Traditionally, Abbot's main competition has been viewed as North American corporations operating in similar markets to those of the Group. However, these companies are currently largely focused on their domestic markets and have not established any significant operations in, for example, Russia, where Abbot is increasingly strong; although they do remain aggressive in north Africa and the Middle East.

Chinese contractors are becoming more active in a number of areas. However, the current indications are that their offering is characterised by a below average performance record and lower-quality equipment. At the same time, the Group continues to distinguish itself from its competitors by ensuring top quartile service delivery, utilising good quality or new equipment and an above average HSE record.

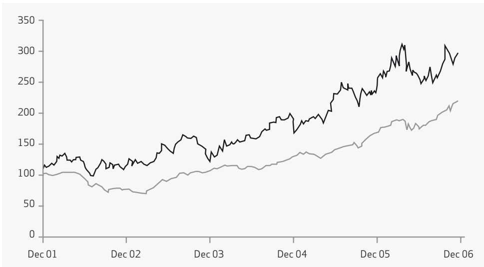
The political climate in some countries can change rapidly, with some issues diminishing in importance in terms of risk profile and others rising to a level where they require increased attention. The Group has invested much time ensuring that it keeps abreast of potential changes to the risks it faces and will continue to monitor closely any factor which will affect its operations and/or the safety of its personnel.

KPIs

The Group's activities are managed by teams of dedicated people whose performance is monitored by a series of key performance indicators.

At the highest level, these are based on the enhancement of shareholder value.

The following graph shows the Company's performance, measured by total shareholder return over a five-year period, compared with the performance of the FTSE 250 Share Index which is considered the most appropriate index for comparison purposes.



Total shareholder returns for Abbot over the past five years vs. FTSE 250

— Abbot Group: Total Return Index
— FTSE 250 Share: Total Return Index

Operationally, the number one priority is that of safety and an attitude which subscribes to "no harm to anyone". Key performance indicators are generated such that all staff are aware of the emphasis the Group places on safety. (See under Safety).

The minimisation of the impact of our operations on the environment is also a key operational element vital to our business.

All of our rigs are equipped to minimise the likelihood of spillages and discharges. Each operation is required to report all such spills of whatever nature and actions are taken to avoid reoccurrence and to remediate any effects. This is mandatory within the Group regardless of whether or not the incident is reportable to outside agencies. The target is always to have zero discharges and local management is tasked with meeting this objective.

Key operational staff from directors downwards generate annual budgets for their areas of responsibilities. By definition, these budgets contain key performance requirements for turnover, margin and utilisation of assets. These are discussed further in the financial review.

Rig utilisation is key to the overall performance of the Group and has been a key focus for management since the acquisition of DEUTAG in 2001. At that time land rig utilisation was in the region of 60%; today we have achieved rig utilisation of approximately 90%.

Capital budgets are also implicit indicators of prudent cost controls for projects. In general the Group targets 12% ROCE for new projects and investments; this may vary but only for strategic reasons.

Support functions, as part of their annual budgeting process, also work to key performance indicators, covering elements such as, recruitment and retention of personnel, rig down-time and cost-effective maintenance.

Some business areas may have specific elements such as contract performance, or other particular items requiring focus placed upon them in order to meet transient local needs.

Resources

People

The oil and gas industry is characterised by inhospitable, remote working environments. Coupled with the industry's ongoing expansion, significant pressures continue to be applied on personnel. The Group employs approximately 6,000 staff in headquarters, office, rig, engineering and other capacities, a figure which will rise in 2007 to support the growth of ongoing operations and new start-ups in a number of areas.

The attraction, training and retention of suitable and experienced staff from Roustabout to Rig Manager represent significant challenges to all industry operators.

KCA DEUTAG alone started-up 11 rigs in 2006 and succeeded in staffing these with appropriately trained and motivated personnel.

The Group's strategy of attracting and retaining valuable personnel includes measures, where attractive and competitive pay and bonus schemes are important but where quality of life, career training and progression, variety and safety are also a priority.

As such, over the course of 2006, the Group paid particular attention to the safety and education of its workforce across the globe, with the aim of attracting a local and loyal base of employees. Each key region is encouraged to source and train its own local workforce, utilising accredited training schemes, rather than importing personnel. This has a positive and sustainable economic impact on the areas in which we operate.

In addition, scholarships and career development opportunities are offered to well-qualified and competent staff and the Group is committed to developing and sustaining a safe, organised, effective and progressive working environment for all its employees.

Rigs and Equipment

A significant proportion of rigs and equipment on the market today is over 20 years old and, at the same time, build capacity is almost fully utilised. The availability of rig components as replacement parts and for new builds is also becoming a concern for operators and manufacturers, with major components continuing to present both the Group and industry with challenges.

Rig design and manufacture cannot be commoditised and Bentec's expertise in the design of both winterised and highly-specified rigs, provides Abbot with substantial engineering back-up and expertise, particularly as it scales up operations in its key strategic areas of Russia, north and west Africa and the Middle East, all of which present operators with the harshest and most challenging of environments.

As Bentec's operations grow, attention is being paid to its ability to increase and efficiently utilise its capacity, ensuring continued timely delivery of contracts while expanding both its product development and rig fabrication operations at a sustainable rate.

In December 2006 the Board approved an investment by Bentec in a new rig building facility in Tyumen, Western Siberia, to meet the expansion of the Russian and other markets. This facility, which will significantly increase Bentec's capacity, will become operational in 2008.

Late delivery or the scarcity of key items of equipment are critical to the on time delivery of newly-built rigs and the full use of operational rigs. In this environment, having an in-house rig fabricator and engineer with Bentec's reputation and ability to deliver projects on time and budget is a major benefit to the Group.

Michael J. L. Salter

Chief Operating Officer, 16 March 2007

Strong growth occurred across both drilling and engineering divisions with substantial increases in revenue and operating profits.

Peter J. Milne

Finance Director

Overview

The financial statements of the Group for the year ended 31 December 2006 are presented for the first time in US dollars, as it is now the principal currency in which the Group earns its income. 2005 numbers have been translated from £ sterling to US dollars at the applicable exchange rates.

The figures in the narrative below are quoted, where applicable, as excluding exceptional items (2005 only), intangible assets amortisation and discontinued operations.

Trading Performance

Strong growth occurred across both drilling and engineering divisions with substantial increases in revenue and operating profits.

The drilling division saw its revenue increase by 62% to $828.0 million with operating profits increasing from $45.1 million in 2005 to $77.2 million in 2006, an increase of 71%. These increases were a result of the increased day rates and utilisation of the land rig fleet and a higher number of operating offshore platforms. Offshore activity in the UK sector of the North Sea increased while new platforms came on stream in the Caspian. The Group's significant investment in growing its land rig fleet saw several operational start-ups in the year.

The engineering division, encompassing RDS and Bentec also saw significant increases in activity and margins with revenue climbing to $334.7 million (2005: $174.7 million), an increase of 91%, and operating profits more than doubling to $28.0 million (2005: $13.4 million).

Intangible Assets Amortisation

A total of $10.5 million (2005: $2.4 million) has been amortised in respect of customer relationships. The intangible assets represent the valuation of customer contracts and relationships existing at the time of acquisition of the IADC business in 2004, the Prosafe business in 2005 and the Songa business in 2006 and are written off over varying periods in accordance with international accounting standards. See note 14 of the accounts for further details.

Finance Costs

The net finance costs of the Group have grown very considerably during the year to a total of $31.1 million (2005: $5.6 million). This increase is largely a result of the acquisition of Songa Drilling AS in June 2006, the cash element of which was $249 million, the post-acquisition costs of carrying out the refurbishment of the Songa rigs, and the heavy capital investment programme in land rigs which together have pushed up our net debt levels to $914.3 million by year end, compared to $225.2 million at the start of the year.

A total of $9.5 million (2005: $2.0 million) of interest was capitalised in accordance with the Group's accounting policy on fixed assets. Interest cover, defined as profit before finance costs and excluding intangible assets amortisation divided by net finance costs, was 3.1 times (2005: 9.4 times).

Taxation

The Group's tax charge of $21.3 million (2005: $16.7 million) on pre-tax profits, excluding intangible assets amortisation, represents a tax rate of 32.4% (2005: 32.4%).

The Group operates in various countries with different standard rates of corporate tax and in others where either withholding taxes as a percentage of turnover, or corporate taxes on a deemed profits basis, apply. The Group's tax rate is therefore subject to fluctuation on a year-by-year basis depending upon activity levels and profits earned in different international jurisdictions.

The management of the Group's tax rate on a long-term basis, particularly due to the increasing internationalisation of the business, is a key priority for the Group.

Profit for the Year from Continuing Operations

Profit increased to $34.0 million (2005: $31.2 million). Significant increases in the operating profits of both the drilling and engineering divisions have been countered by the large increase in intangible assets amortisation and finance costs, such that overall profits rose by 9.2%.

Discontinued Activities

The loss of $3.4 million (2005: loss $16.5 million) relates to Spear Technologies Inc which was sold in April 2006.

Earnings Per Share and Dividends

The adjusted earnings per share for the year, which excludes exceptional items, intangible assets amortisation and discontinued operations, and which the Board considers to be a more meaningful measure of the Group's financial performance on an ongoing basis, was 21.3 cents compared to 18.3 cents in 2005, an increase of 16%.

The Board is recommending an increase in the Group's final dividend for 2006 to 3.65p (2005: 3.30p) making a total distribution for the year to shareholders of 5.50p (2005: 5.00p) per share, an increase of 10%. Dividend cover, for dividends paid in 2006 was 2.3 times (2005: 1.7 times). (Dividend cover is defined as the profit for the year, excluding exceptional items, intangible assets amortisation and discontinued operations divided by the dividend cost).

Acquisition of Songa Drilling AS

In June 2006, the Group acquired 100% of the equity of Songa Drilling AS for a total consideration of $512.4 million. This was satisfied by the issue of 47,743,925 shares in the company equating to $263.4 million, plus total cash payments of $249.0 million. It owned three jack-up drilling rigs all of which were being refurbished in Texas at the date of acquisition. The Songa Jupiter rig subsequently went to work for Pemex in the Gulf of Mexico in September 2006 whilst the other two rigs, Songa Neptune and Songa Tellus, continued their refurbishment programme through the end of 2006.

Capital Investment

As well as its acquisition of Songa Drilling AS and the refurbishment cost of these rigs incurred post-acquisition, the Group has continued its considerable investment programme in drilling rigs and equipment to give net capital expenditure of $236 million in 2006, including new land rigs for Europe, Russia, the Middle East and Brunei. At the year end construction of four land rigs was ongoing for delivery in 2007, plus significant upgrade work on two further rigs.

Group Debt and Cash flow

The Group's EBITDA for the year (earnings before interest, taxation, depreciation and amortisation) was $155.4 million (2005: $100.2 million) an increase of 55%.

Net changes in working capital amounted to an outflow of $111.8 million (2005: $14.1 million). The considerable outflow is largely as a result of the increase in the Group's level of activity and turnover plus the timing of cash flows associated with rig building projects for third-party customers. One project has caused a working capital swing in 2006 of over $70 million as the customer had paid over $40 million in advance at the end of 2005, whereas at the end of 2006 there was an amount in work in progress of over $30 million. This work in progress amount will unwind in the first half of 2007.

Due to the nature of the Group's business with salary and related expenses being the primary cost to the Group, and being paid out on a "current month" basis, an increase or expansion of the business will lead to a significant working capital outflow.

As detailed elsewhere within the report very significant expenditure has been incurred on the acquisition of Songa Drilling AS and fixed assets totalling over $490 million.

After payment of interest, corporate taxes and dividends to shareholders the Group's debt increased to $914.3 million at year end compared to $225.2 million at 31 December 2005.

	($m)
Net debt at start of year	225
EBITDA	(155)
Working capital movements	103
Acquisitions and investments	257
Capital expenditure, including intangibles	236
Interest	40
Tax	24
Dividends	20
Foreign exchange effects	32
Net debt acquired on acquisition of Songa Drilling AS	132
Net debt at year end	914

During the year the Group signed a $1.1 billion bank facility with five banks to fund its acquisition and investment programme split between a $400 million term loan, a $325 million revolving credit facility, a $75 million overdraft and bond facility as well as a $300 million short-term facility which is due to be refinanced in late 2007. The debt is denominated principally in US$, £ sterling and Norwegian kroner.

The debt of $131.8 million which was acquired with the acquisition of Songa Drilling AS was refinanced from the above facility with the exception of $40 million of bonds which are due for redemption in 2010 and carry an interest rate of 10%.

A mixture of short- and longer-term interest rate swaps in different currencies have been put in place covering $446.0 million of the year end debt, giving an average fixed rate of interest of 6.6% thereon.

Treasury and Currency Risk

The Group's international business now accounts for approximately 85% of turnover, with the US$ being the largest single currency thereof. In respect of our Norway business acquired during the year, turnover and costs are primarily incurred in Norwegian kroner. UK turnover and costs are primarily incurred in £ sterling, Norwegian business in Norwegian kroner with Euros being the principal currency of our European land operations.

In order to minimise the Group's exposure to exchange rate fluctuations, the currencies of its major income and expenditure flows are matched, where at all possible, thereby creating a natural hedge against such fluctuations.

In addition, the Group manages the currencies of its debt, cash balances and inter-Company accounts in order that, as far as possible, monetary assets and liabilities in each of its main trading or functional currencies are matched thereby reducing exposure to the translation of its net assets denominated in foreign currencies.

Exposure to the translation of foreign currency net profits is not hedged.

Pensions

A total of $119.9 million (2005: $106.9 million) is recorded in the Group's balance sheet at 31 December 2006 in respect of pension liabilities. See note 33 for a detailed analysis.

The biggest element thereof relates to unfunded pension liabilities in Germany totalling $92.1 million (2005: $83.0 million). In Germany it is standard practice that pension contributions are not invested and held separately from a company's assets but the liabilities are recorded on a company's balance sheet and, over a very considerable period of time, the company pays out pensions to former employees at retirement.

In respect of the UK defined benefit schemes there is a combined deficit of $8.5 million (2005: $11.2 million) on the Group's balance sheet which is being funded by additional cash contributions to the funds of $2.8 million per annum for the next two years with the residual balance being funded over the medium-term.

The Group also has unfunded pension liabilities in Norway amounting to $19.3 million (2005: $12.7 million) relating to early retirement schemes.

In general discount rates rose slightly at the end of 2006 compared to 2005 which has led to small actuarial gains across the schemes. However in Norway this was offset by larger than anticipated salary increases arising from a negotiated settlement with the relevant trade unions across the drilling industry, giving rise to actuarial losses on the cost of providing future benefits.

Across the various schemes, exchange losses of $12.5 million (2005: gains $13.5 million) were incurred in the translation of the liabilities into US dollars.

Peter J. Milne

Finance Director, 16 March 2007

Investing in

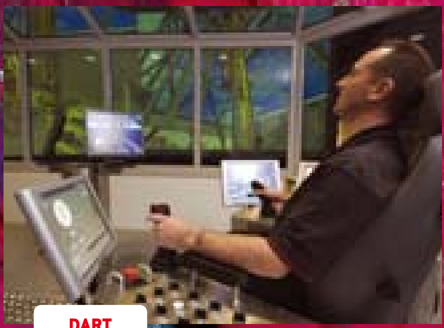
People

Nationalisation programmes are key to our success in overseas markets. We are committed to investing in the recruitment and training of local personnel in all our operations worldwide.

2006 saw two platform rigs start-up in the Caspian – Shah Deniz and East Azeri. This followed the start-up of Central Azeri and West Azeri in 2005. Abbot, which is the only Western contractor on fixed platforms in the region, has been involved in the design and engineering of these platforms over the last three years and is the drilling contractor on them all. The scale of these consecutive start-up operations in 2005/06 meant that the Group had to source and train 500 Azerbaijani nationals and expatriates over a period of three years. It is testament to Abbot's high level of preparation, that all start-ups were achieved safely, on schedule and on budget, keeping non-productive time to a minimum.

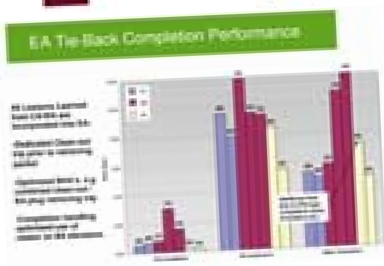
KCA DEUTAG rig floor crew on the West Azeri platform

SHAH DENIZ



DART

PROJECT / TASK	Caspian 2006
OPERATIONS:	Five rigs operational and one snubbing unit
PERSONNEL:	Recruited 136 national staff and 49 international staff (2006)
TRAINING:	Over 11,500 training man days (2006)
SAFETY:	No lost time injuries



Against a backdrop of increased international expansion, safety, the environment and the well-being of our employees all remain a priority and, in 2006, we further developed our procedures and policies to ensure we meet the challenges which arise in these key areas.

Local Schools Project: Dhaka

In Bangladesh KCA DEUTAG is supporting a voluntary organised local school project in Dhaka by hiring the building, school materials and teachers.

International Youth Festival

KCA DEUTAG supported talented 15-year-old Azerbaijani musicians Zahra Yusifli and Mustafa Ahmed Ashurov, to perform at Aberdeen's International Youth Festival in August 2006.

Since our decision to adopt the principles of the United Nations Global Compact and prepare our first CSR Report we have focused our attention on specific aspects of our core values. Initially, our main efforts for improvement were in Health & Safety and Environmental Stewardship. However, our CSR Benchmarking Study in 2003 identified the need to improve the Group's performance in other areas. In 2005, we reported on our progress in the overall development of management systems and in providing greater direction to our staff in areas of business ethics.

Valuing all People has been our key driver in 2006. This was not only to fit in with our core values, but also to help alleviate one of the key business pressures facing our industry today, i.e. the shortage of skilled people. Our response has been to continue our policy of recruiting local people at our operating sites and providing them with high levels of training and support. This has also involved increasing the awareness and implementation of all our Health & Safety, environmental and business ethics policies and procedures.

Health & Safety

Whilst we continued to remain well inside the IADC industry benchmark for Health & Safety, our 2006 safety performance was similar to that in 2005 with a Total Recordable Incident Rate (TRIR) of 1.05, falling short of the 0.8 target we set out in the 2006 HSE Plan. It was however significantly lower than the industry average of 2.19.

We achieved our target of training 35% of our supervisors (based on the number of supervisors we employed at the beginning of the year) on our Safe2Lead safety and leadership training programme by the end of 2006.

Safe2Lead is recognised as a world-class initiative in the industry and continues to be the focus of our efforts to improve performance. The programme cost $2 million to develop and in 2006 over 300 personnel from 21 different geographical operational locations completed the programme.

In 2007 we will continue this successful programme, running 20 courses throughout the year. There are also plans to deliver Safe2Lead in Russian, Arabic and German.

All country managers, area managers and KCA DEUTAG directors will have participated in the Safe2Lead programme by the end of 2007 and we will also be introducing a system to follow-up on individual action plans stemming from the programme.

Environmental Stewardship

In our primary role of managing drilling operations for clients, our responsibilities for environmental management are primarily related to site preparation, waste management and atmospheric emissions from power generation. We undertake environmental risk assessments and site appraisals as standard in all our operations. These assessments are discussed with clients to assist with the identification of new ways to improve the environmental performance of the operation as a whole, through the preparation and implementation of site specific environmental plans.

In 2006 we targeted environmental audits and inspections at our locations around the world in order to benchmark current performance and identify areas for improvement. The results of these audits will be used to improve our environmental processes and procedures during 2007.

Abbot Group Industry Average

Health & Safety

Whilst we continued to remain well inside the IADC industry benchmark for Health & Safety, our 2006 safety performance was similar to that in 2005 with a Total Recordable Incident Rate (TRIR) of 1.05, falling short of the 0.8 target we set out in the 2006 HSE Plan. It was however significantly lower than the industry average of 2.19.

Nationalisation

Nationalisation programmes are key to our success in overseas markets. We are committed to investing in the recruitment and training of local personnel in all our operations worldwide.

Valuing All People

We endeavour to employ local people wherever possible in all of our operations. To support our local workforce, we undertake a variety of activities aimed at personal development through training at all levels of the business.

Our commitment to the principles of the UN Global Compact provides the basis for our policies and procedures to ensure consistent labour standards throughout the Group. This also sets the standards for areas such as:

- Employing the best people to meet our requirements without discrimination in any form
- Recognition of the right of the worker to freedom of association and collective bargaining whilst recognising local culture, customs and legislative framework
- Prohibiting the use of forced, compulsory or child labour.

We work closely with communities local to our operations, supporting projects that focus on education, training and skills development, as well as those that improve social and economic opportunities for local people.

Business Ethics

Our continuing membership of the FTSE4Good index provides an independent assessment of our success in working towards compliance with standards relating to environmental sustainability, anti-corruption, human rights and labour.

In 2005, we rolled out new guidance to assist our employees with implementing our business ethics policies. The past year has seen the implementation of the guidance throughout the organisation. Application of the policies and procedures is the responsibility of the business unit directors through local plans. Performance is reviewed regularly at Executive Board meetings and reviewed as part of Group audit plans.

Our inductions and training programmes include ensuring that all employees are aware of our expectations, policies and procedures to ensure human rights and ethical behaviour.

Michael J. L. Salter

Chief Operating Officer, 16 March 2007

Technical Training

Our Nigerian operation has partnered with Mercedes-Benz Anambra Motor Manufacturing Company Ltd. to provide technical training to KCA DEUTAG's mechanics and electricians.

Well Control School: Libya

In 2006 we opened our Drilling and Well Control School in Tripoli, Libya to train and certify KCA DEUTAG drilling supervisory staff.

Alasdair J.D. Locke (53)

Executive Chairman

1 Alasdair has been involved in the oil and shipping industries since 1974, and held senior executive positions within the banking industry. His involvement with the Group is his only significant investment in the oil and gas industry. Appointed to the Board in 1995.

Michael J.L. Salter (59)

Chief Operating Officer

2 Mike graduated in mechanical engineering from the University of Glasgow. He joined Bawden Drilling in 1980, and became vice president/general manager in charge of all European activities in 1987. He moved in early 1990 to be chief executive of Smedvig Limited in the UK. He joined the Abbot Group as director of business development during 1995 and was appointed chief operating officer in 1997. He is also non-executive chairman of CQS Rig Finance Fund Limited.

Peter J. Milne (52)

Finance Director

3 Peter qualified as a chartered accountant with Deloittes in the UK in 1977 and over the following 10 years worked both in the UK and overseas in a number of positions in the "profession" and oil industry. He joined KCA DEUTAG Drilling Limited in 1988 and held a variety of roles before being appointed to his current position in 1995.

Maurice A. White (55)

Executive Director – Drilling Operations

4 Maurice, a mechanical engineer, first joined KCA DEUTAG Drilling Limited in 1977. Following a career in drilling operations and engineering he was appointed managing director in 1996. In 2001, Maurice was appointed to the Group Board. He was on the Executive Committee of the International Association of Drilling Contractors from 2002 until early 2005.

Holger W. Temmen (40)

Executive Director – Business Development

5 Appointed in 2005, Holger joined the DEUTAG Group of Companies in 1990, following his graduation from Muenster University. Since October 2001 he has been a director of KCA DEUTG Drilling Group Limited, a wholly-owned subsidiary of Abbot.

John W. Hollis (65)

Non-Executive Director

6 Appointed in 1999, John has worked for the Iraq Petroleum Company, Shell, Mobil, Britoil and BP during his 36-year career in exploration and production. His most recent appointments were senior vice president (Azerbaijan) and general manager (Norway) with BP until his retirement in 1999.

Dr George E. Watkins (63)

Non-Executive Director

Appointed in 2002, George joined the 7
Conoco Group in 1973 and held a number of senior jobs in the UK and overseas prior to his appointment as chairman and managing director of Conoco (U.K.) Ltd from 1993 until his retirement in 2002. He is also a non-executive director of ITI Scotland Limited, Maersk Company Limited and Production Services Network Limited.

Robert A. Duncan (56)

Non-Executive Director

Appointed in 2003, Robbie qualified as 8
a chartered accountant with PwC in 1975. In 1979 Robbie joined Shell UK Exploration and Production and subsequently held several financial appointments in the oil and gas industry. From 1986 until his retirement in 2003 he was an executive director at First Group plc, the UK's largest public transport operator. He is also a non-executive director of Havelock Europa plc.

Javier Ferrán (50)

Non-Executive Director

Appointed in 2005. Following his 9
graduation from Barcelona University in 1978, Javier was with Lloyds Bank in various overseas branches, from 1979 to 1984. He joined the Bacardi Group in 1985, where he held the position of general manager UK. Subsequently he was appointed president – Europe, Africa and Middle East, and finally was elected as president and chief executive officer of the Group until December 2004. Javier has been a partner at Lion Capital, a London-based private equity firm since 2005. He is a non-executive director of Associated British Foods plc.

Isla M. Smith (55)

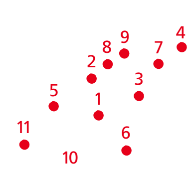
Non-Executive Director

Appointed 2005. Isla was born and 10
educated in South Africa. After qualifying as an attorney there, and then as a solicitor in England, she joined Norton Rose, international law firm, in 1980 to specialise in corporate tax. Isla was a tax partner with Norton Rose from 1985 to 2004.

Alec W.J. Banyard (65)

Company Secretary

Alec, a qualified accountant, has been 11
involved in the oil services industry for over thirty years. He has been involved with the Group for a number of years and was appointed company secretary in 1996.



Alec W. J. Banyard

Company Secretary

Principal Activities and Business Review

The directors present their annual report on the affairs of Abbot Group plc ("the Company") and its subsidiary undertakings (together "the Group"), together with the consolidated accounts and auditors' report, for the year ended 31 December 2006.

The Group's predominant focus is on providing development drilling services and rig operations to major oil companies in its key strategic areas of Europe, north and west Africa, the Middle East, the Caspian Sea and Russia. It is the largest offshore platform drilling contractor in the North Sea, an international operator of mobile offshore drilling units and one of the largest international land drilling contractors outside the Americas. Abbot is also a leader in the field of drilling rig design and construction and the manufacture of land drilling rigs and related components.

Further information regarding the Group, including important events and its progress during the year, events since the year end and likely future development, is contained in the Chairman's Statement and in the Operating Review on pages 4 to 19. The information that fulfils the requirements of the Business Review (as required by Section 234ZZB of the Companies Act 1985), which is incorporated in this Directors' Report by reference, can be found in the following sections of this Annual Report:

Information	Location
Development and performance during the financial year	Chairman's Statement and Operating Review
Position at the year end including analysis and key performance indicators	Operating Review
Other performance, including environmental and employee matters	Operating Review
Principal risks and uncertainties facing the business	Operating Review
Explanation of amounts included in the annual accounts	Financial Review and Notes to the Financial Statements

The subsidiary undertakings principally affecting the results or net assets of the Group in the year are set out in note 39 to the accounts.

Results and Dividends

The Group made a profit on ordinary activities before taxation of US$55,385,000 (2005: US$47,853,000). The audited accounts for the year ended 31 December 2006 are set out on pages 42 to 75.

The directors recommend a final dividend of 3.65p (2005: 3.30p) per ordinary share to be paid on 1 June 2007 to ordinary shareholders on the register at the close of business on 4 May 2007, which, together with the interim dividend of 1.85p (2005: 1.70p) paid on 3 November 2006, makes a total of 5.50p per ordinary share for the year (2005: 5.0p).

Share Capital

47,743,925 ordinary shares were issued on 8 June 2006 at a price of £2.975 per ordinary share to shareholders of Songa Drilling AS as part consideration of the acquisition of that company.

Directors and their Interests

The directors who served during the year were as follows:

A.J.D. Locke	(executive chairman)
M.J.L. Salter	(chief operating officer)
P.J. Milne	(finance director)
M.A. White	(executive director – drilling operations)
H.W. Temmen	(executive director – business development)
R.A. Duncan	(non-executive director)
J. Ferrán	(non-executive director)
J.W. Hollis	(non-executive director)
I.M. Smith	(non-executive director)
G.E. Watkins	(non-executive director)

The interests of the directors in the ordinary shares of the Company are disclosed within the Directors' Remuneration Report set out on pages 36 to 40.

Substantial Shareholdings

At 16 March 2007, the Company had been notified, in accordance with Chapter 5 of the Disclosure Rules and Transparency Rules Sourcebook published by the Financial Services Authority, that the following persons held 3% or more in the voting rights of the Company:

	Number of ordinary shares*	Percentage held %
A.J.D. Locke	30,000,000	12.91
Spencer Energy AS	28,462,950	12.25
Prudential plc	18,078,937	7.78
Baillie Gifford & Co	12,146,693	5.23
Legal & General Group plc	8,364,573	3.60
Resolution Investment Services Ltd	7,347,492	3.16

*Number of ordinary shares in respect of which voting rights held.

Supplier Payment Policy

The Group policy is to agree terms of payment with suppliers prior to entering into contractual relationships and to abide by those terms of payment. As the Company is principally a holding company it has no trade creditors and accordingly no disclosure is made of the year end creditor days.

Employees

The Group is committed to involving employees in the business through a policy of communication and consultation. Arrangements have been established for the regular provision of information to all employees through briefings and well-established formal consultation procedures.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant. If employees become disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Health & Safety at Work

The well-being of the employees is given the highest priority throughout the Group and it is the Group's policy not only to comply with Health & Safety measures, as required by law, but to act positively to prevent injury and ill health, and damage to the environment arising from its operations. Further information is contained in the Corporate Social Responsibility Report set out on pages 26 to 27.

Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group, and of the profit or loss of the Group for that year. In preparing those accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently with the exception of the changes arising on the adoption of a new accounting policy as explained in note 1 to the accounts;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Statement as to Disclosure of Information to Auditors

a) So far as each director is aware, there is no relevant audit information of which the auditors are unaware, and

b) Each of the directors has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The notice covering the Annual General Meeting to be held on 23 May 2007, which can be found on pages 78 to 79, contains details of five resolutions which will be considered as special business.

Resolution 8

Directors' Remuneration Report

In accordance with the Directors' Remuneration Report Regulations 2002 (the "Remuneration Regulations"), the Company is required to submit the Directors' Remuneration Report for the year ended 31 December 2006 to a vote of the shareholders. In accordance with the Remuneration Regulations, approval of the Directors' Remuneration Report is proposed as an ordinary resolution.

Resolution 9

The Abbot Group Annual Share Bonus Plan

Resolution 9 contains details of an ordinary resolution empowering the directors to increase the maximum allowable annual bonus from 75% to 100%, in line with market practice, with effect from 1 January 2007.

Resolution 10
Directors' authority to allot relevant securities

The Company's Articles of Association permit the directors to allot shares and other securities, in accordance with Section 80 of the Act, up to an amount authorised by the shareholders in general meeting. At the forthcoming Annual General Meeting, the directors are seeking authority to allot shares and other securities up to an aggregate nominal amount of £11,144,249, being 31.97% of the issued ordinary share capital of the Company as at 16 March 2007. This authority would be effective for a period of twelve months or, if earlier, until the next Annual General Meeting. The directors have no present intention of exercising the authority proposed to be granted pursuant to resolution 10.

Resolution 11
Dis-application of pre-emption rights

Resolution 11 contains details of a special resolution empowering the directors to allot relevant securities for cash up to a maximum nominal amount of £1,742,787, which represents just under 5% of the Company's issued ordinary share capital as at 16 March 2007.

Resolution 12
Purchase of own shares

The Company is taking this opportunity to seek authority to purchase its own ordinary shares.

The directors propose that the Company be authorised to purchase a maximum of 23,237,167 ordinary shares (representing just under 10% of the share capital of the Company in issue as at 16 March 2007) within the limits described in resolution 12 contained in the Notice of the Annual General Meeting. It is intended that purchases will only be made on the London Stock Exchange plc. The directors believe that it is in the best interests of all shareholders that the Company should have the flexibility to make market purchases of its own shares. The authority would be valid until the conclusion of the next Annual General Meeting or the expiry of twelve months from the date of the resolution, whichever is the earlier. The directors have no present intention of exercising the authority proposed to be granted pursuant to resolution 12.

The effect of such purchases would either be to cancel the number of shares in issue (and the directors would accordingly only make such purchases after considering the effect on earnings per share and the best interests of the shareholders generally), or the directors may elect to hold them in treasury pursuant to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Regulations").

Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under a company's employees' share scheme. Once held in treasury, a company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the company's assets may be made to the company in respect of the treasury shares.

If the directors exercise the authority conferred by resolution 12 they will consider holding those shares in treasury, rather than cancelling them. The directors believe that holding shares in treasury may provide the Company with greater flexibility in the management of its share capital. The directors will also consider using the treasury shares to satisfy any share awards under an employees' share scheme. The directors will have regard to the Pre-Exemption Group's Statement of Principles published in May 2006 in respect of the re-sale of any treasury shares.

Auditors
The directors will place a resolution before the Annual General Meeting to reappoint PricewaterhouseCoopers LLP, who were first appointed in 2001 as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

Going Concern
After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Re-election of Directors
In accordance with the Articles, Messrs Locke, Duncan and Milne retire by rotation and offer themselves for re-election. Messrs Locke and Milne's service agreements are subject to twelve months notice by the Company. Mr Duncan's appointment is subject to three months notice.

Change to the Board
John Hollis, who has been a non-executive director since August 1999, having reached the age of 65, has indicated that he will step down from the Board at the Annual General Meeting in May 2007. John has been a valued colleague during his time on the Board and the Board would like to thank him for his contribution to the success of the Group over many years.

By order of the Board

Alec W. J. Banyard

Company Secretary, 16 March 2007

The Company is committed to the principles of corporate governance contained in the 2003 Combined Code on Corporate Governance (the "Code") which are appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders.

Statement about Applying Principles of Good Governance

The Company has applied the Principles of Good Governance set out in Section 1 of the Code by complying with the Code of Best Practice as reported below. Further explanation of how the Principles have been applied is set out below and, in connection with directors' remuneration, in the Directors' Remuneration Report.

Statement of Compliance with the Code of Best Practice

The Company has complied generally throughout the year ended 31 December 2006 with the provisions of the Code of Best Practice set out in Section 1 of the Code. As Executive Chairman, Alasdair Locke has certain strategic responsibilities often associated with a Chief Executive Officer (CEO). The Board believes this to be appropriate since, due to his significant shareholding, Alasdair Locke's interests are closely aligned with those of most other shareholders. Responsibility for operational matters rests with the appropriate executive directors. John Hollis, as the nominated senior non-executive, together with Robert Duncan, Javier Ferrán, Isla Smith and George Watkins, provide strong independent advice.

The Board considers these five non-executive directors to be independent as they hold only minimal shareholdings and, other than remuneration for their services as non-executives, have no other related interests in the Group. Michael Salter is the nominated director responsible for Group HSE matters, with Maurice White being responsible for the HSE matters of the KCA DEUTAG Drilling Group of companies.

Ross Richardson, a director of KCA DEUTAG Drilling Group Limited, who reports to Maurice White, is responsible for human resource issues.

The management team, comprising the executive directors together with senior managers, meets formally on a quarterly basis to review current business matters and identify any areas of concern.

The Executive Chairman meets once annually with the non-executive directors without the executive directors being present. The non-executive directors meet once annually to appraise the Executive Chairman's performance.

Dialogue with Shareholders

The Company has a well-established programme of meetings with substantial investors and brokers, including presentations in respect of both the interim and annual reports and holding discussions in respect of future growth and strategy. The senior non-executive director is available to meet with shareholders.

Board of Directors

The Board of Directors at 16 March 2007 comprises ten directors: five executive directors and five non-executive directors. Terms of reference for full Board approval are in place, which includes, inter alia, the review of the Group's Health & Safety performance, the approval of annual and interim results, significant transactions, major capital expenditures, the yearly business plan and budget, the Group's long-term commercial strategy, establishing financial authority limits and Group treasury policies.

The Board meets not less than four times a year (eight meetings were held during 2006, attended by all 10 Directors with the exception of Messrs Duncan, Ferrán, Hollis and Temmen who each attended seven meetings).

Matters are delegated to the Audit and Remuneration Committees, as appropriate, including those detailed below. A Nominations Committee was established on 14 December 2006.

The Board is satisfied that each of the non-executive directors commits sufficient time to the fulfilment of their duties as a director of the Company.

For some years the Company has purchased insurance to cover its directors and officers against their costs in defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings. To the extent permitted by UK law, the Company also indemnifies its directors and officers. Neither the insurance nor the indemnity provides cover where the director has acted fraudulently or dishonestly.

Directors have access to independent professional advice at the Company's expense. In addition all directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are complied with.

The appointment of the Company Secretary is a matter for the Board as a whole.

During 2006 the Board, and each of the Audit and Remuneration Committees undertook performance evaluations. Using the Higgs "Suggestions of Good Practice" as guidance, the individual directors and/or committee members initially completed separate questionnaires. The results were compiled and analysed by the Company Secretary who prepared reports to the Board and each of the committees. The areas covered included the role of the executive and non-executive directors and the Board/Board committees, leadership and performance at meetings, the effectiveness of the Board/Board committees, leadership and culture and corporate governance. The results were then considered by the Board and each of these committees in meetings as specific items of business. The Board and Board committees are comfortable that they are operating effectively. These exercises will be repeated annually.

The Executive Chairman also convened a formal meeting of the non-executive directors to assess the performance of the Board in the absence of the executive directors. Amongst other matters when undertaking this exercise, the Chairman had regard to the principles in the new code relating to evaluation of the collective and individual performance of Board members. The non-executive directors, in the absence of the Chairman, met to assess the Chairman's effectiveness.

The training needs of both executive and non-executive directors, taking into account their individual roles and responsibilities, are periodically reviewed and acted upon as appropriate.

Audit Committee

Non-executive members: Robert Duncan (Chairman), John Hollis, George Watkins, all of whom are considered to be independent non-executive directors.

Robert Duncan, who has the necessary financial experience, has chaired the Committee since September 2003.

The Committee's terms of reference are principally concerned with accounting matters, financial reporting and internal controls. The Committee meets not less than three times a year (three meetings were held during 2006 which had a 100% attendance) to review any significant judgements made in the preparation of the half-yearly and annual accounts before they are submitted to the Board. It agrees with the external auditors the nature and scope of their work and discusses with them the results thereof. The Committee has the power to seek external advice as and when required.

In addition the Committee meets once a year with the external auditors without management being present. It reviews both the independence and objectivity of the external auditors and any non-audit services provided. Any assignment in respect of non-audit services where the level of fees is expected to be in excess of £50,000 has to be approved in advance by the Audit Committee.

The Committee has put in place and periodically reviews procedures to comply with the Public Interest Disclosure Act 1998, known as "whistleblowing".

The role of the Group compliance officer, who reports to the Chairman of the Audit Committee, includes internal audit functions. The overall scope of the internal audit programmes are approved by the Audit Committee, and the results thereof reviewed.

Remuneration Committee

Non-executive members: George Watkins (Chairman), John Hollis, Javier Ferrán, all of whom are considered to be independent non-executive directors. George Watkins has Chaired the Committee since May 2005.

The Committee's terms of reference are principally concerned with the remuneration, in all its forms, of main Board executive directors and other senior executives of the Group.

The Committee meets not less than twice a year, (four meetings were held during 2006, attended by all members of the Committee) and with the assistance of information provided from external sources and from sources within the Company ensures that the salary, benefits and pension arrangements of the executive directors, together with awards under any executive incentive plan, share option or other similar schemes are appropriate. Further information is contained within the Directors' Remuneration Report set out on pages 36 to 40.

Nominations Committee

Non-executive members: Isla Smith (Chair), Robert Duncan, George Watkins, all of whom are considered to be independent non-executive directors and executive member: Peter Milne. Isla Smith has Chaired the Committee since its formation in December 2006.

The Committee's terms of reference are principally concerned with the review on an annual basis, of the structure, size and composition of the Board, succession planning and to be responsible for identifying and nominating candidates to fill Board vacancies as and when they arise. The Committee is to meet not less than twice a year (one meeting was held during 2006, which was attended by all members of the Committee other than Robert Duncan).

Internal Control

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group adopts internal controls appropriate to its business and culture. An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group and is in accordance with the guidance of the Turnbull Committee on internal control.

The Board has carried out regular reviews of the effectiveness of the Group's system of internal controls during 2006, and will ensure that further such reviews are performed on a regular basis. The Board is satisfied that effective controls are in place and that risks have been mitigated to an acceptable level. The key elements of the internal control system and the processes used by the Board to review the effectiveness of the system include the following:

Risk Management

The Risk Management Committee continues to have responsibility for co-ordinating the ongoing process of identifying, evaluating and reporting progress to the Board on managing the Group's key risks, including a specific assessment for the purposes of this annual report. The Committee, whose members are John Hollis (Chairman), Peter Milne, Michael Salter and Alec Banyard, regularly reviews and challenges the effectiveness of the risk process, recognising that the process is iterative, requiring ongoing monitoring and improvement. Both a top-down and a bottom-up approach is adopted in order to achieve a broad view of risk from staff at different levels within the organisation.

Recognising and managing risk is a process that occurs at all levels within the Group and is an inherent part of the management culture. At the operational level, line management is responsible for the process of identification and evaluation of significant risks, assessing the design and operation of suitable internal controls, and the integration of these processes into the day-to-day operations of the Group.

Each business unit and support function is required to produce a risk matrix which identifies the key business risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level.

The Risk Committee reviews the risk information received and brings its own top-down contribution and judgement to bear. The resultant findings are brought to the Board in a summarised form as well as being fed back to the organisation through management to ensure a common understanding and the implementation of necessary actions.

The Risk Committee will continue to hold at least two risk reviews each year in order to ensure that changing circumstances are being monitored and necessary actions being implemented. (Two meetings were held during 2006, which had 100% attendance).

Assurances

The directors derive further assurances from the following internal and external controls:

- Historical financial performance and revised forecasts for the full year are regularly reported to the Board with significant variances explained and key risks identified;
- Reports from the Audit and Risk Management Committees;
- Client audits;
- External audits; and

internal audits to assess compliance – the compliance manager plays a significant role in the risk management process. The Audit Committee, on behalf of the Board, reviews the remit, authority, resources and scope of work of the compliance function on an annual basis.

By order of the Board

Alec W. J. Banyard

Company Secretary, 16 March 2007

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited Information

Remuneration Committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee, who are all independent non-executive directors are George Watkins (Chairman), Javier Ferrán and John Hollis. During 2006 four meetings of the Remuneration Committee took place at which all members were present.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board when appropriate. No director plays a part in any discussion about his own remuneration.

In determining the directors' remuneration for the year, the Committee consulted Alasdair Locke (Executive Chairman) about its proposals. Monks Partnership and Deloitte and Touche LLP provided relevant general market survey information in respect of remuneration packages of executive directors of UK quoted companies.

Remuneration Policy

The Company has complied throughout the year with Schedule 7A of the Companies Act 1985 and Schedule B of the Code of Best Practice in respect of the directors' remuneration.

The Company's policy is to ensure that executive remuneration packages are structured to attract, motivate and retain executives of the calibre required, reflect the size, performance and complexity of the Group's business, the contribution of the individual executive, and are in line with the market place.

The directors believe that an important and substantial element of remuneration at the executive level should be performance related, with participation in both annual and long-term incentive plans, which progressively reward the executive for enhancing shareholder value.

The performance measurement of the executive directors and the determination of their annual remuneration packages is undertaken by the Committee.

The four main elements of the remuneration package for executive directors and senior management are:

- Basic annual salary
- Annual bonus payments
- Long-term incentive arrangements
- Pension arrangements.

Executive directors are entitled to accept appointments outside the Company providing that the Chairman's permission is obtained. Any such fees earned are retained by the directors.

The remuneration of the non-executive directors is determined by the Board.

Basic Annual Salary

An executive director's basic salary is determined by the Committee at the beginning of each year. In deciding appropriate levels, the Committee considers salary levels within the Group as a whole and relies on objective external research which gives up-to-date information on a comparator group of companies based upon, for example, market capitalisation, turnover, number of employees and level and complexity of international business.

In addition to basic salary, the executive directors receive certain benefits-in-kind, principally a car/car allowance and fuel for private motoring.

Annual Bonus Payments

The Committee establishes common annual financial objectives for all executive directors based upon the achievement of financial results aligned to the Group's annual budget approved by the Board at the start of the year. The annual bonus is calculated on a straight-line sliding scale from a threshold budget level below which no bonus is payable through to a level above budget level at which the maximum bonus amount is payable. The principal measure used is pre-tax profits excluding intangible asset amortisation and exceptional items. Factors that contribute to pre-tax profits include revenues, costs and return on investment. Account is taken of debt levels and associated interest payments as well as general efficient and effective operation of the Group. Account is also taken of the relative success of the different parts of the business for which the executive directors are responsible and the extent to which the strategic objectives set by the Board are being met.

Annual bonus payments are normally awarded under the terms of The Abbot Group Annual Share Bonus Plan, ("the Annual Plan").

The principal terms of the Plan are as follows:

- Under the Annual Plan, executive directors and other selected senior executives may, after the announcement of results of a "bonus year", be awarded a bonus of up to 75 per cent of the amount of basic annual salary paid for that bonus year. The amount of such bonus will be at the discretion of the Remuneration Committee but will be determined by reference to the attainment of financial targets set at the beginning of that bonus year, as detailed above.
- The executive director may elect to take the whole or any part of such bonus in the form of shares in the Company ("Annual Award Shares") at the current market price which, if the executive director continues to be employed by the Group and hold the shares for a period of three years ("the Holding Period"), will be matched on a 1 for 2 basis by an award of additional shares at the end of the Holding Period ("a Matching Share Award").

ExSop

Under The Abbot Group Executive Share Ownership Plan (the "ExSop") implemented in 2005, executive directors of the Company received a beneficial interest in ordinary shares of the Company for a consideration of 0.1p per ordinary share. Under the ExSop the directors will only benefit from any future growth in the market value of such shares from the date of acquiring the interest, less an annual interest charge on the initial market value of such shares.

A beneficial interest in the following number of ordinary shares was acquired in 2005 by the following directors:

M.J.L. Salter	M.A. White	P.J. Milne
500,000	750,000	750,000

at which date the market value of each ordinary share was £2.54. No change to these beneficial interests took place in 2006.

Long-Term Incentive Arrangements

Under The Abbot Group Long-Term Incentive Plan 2003 executive directors of the Company and a restricted number of other senior executives may receive performance-related share awards on an annual basis ("LTIP Award Shares"). These will normally take the form of nil-cost awards granted by the trustee of the Abbot Group Employees' Share Trust. The initial market value of the shares over which any such award is made may not exceed 100% of the executive's basic annual salary, except in the case of A.J.D. Locke where the initial market value may not exceed 150% of basic annual salary. The number or proportion of such LTIP Award Shares which vest will be determined by the attainment of pre-set targets relating to the performance of the Group over a fixed period of three years beginning with that in which the award is made.

For awards made in 2006, the Committee determined that the target to be set in relation to such awards will be that growth in adjusted earnings per share, (adjusted to exclude such items as goodwill impairment, intangible asset amortisation and exceptional items), must exceed growth in RPI (excluding mortgage interest) over the three-year period 2006 through 2008 plus at least 10%. At this level, 25% of the LTIP Award Shares would vest. Such shares would vest in full only if such growth is equal to or exceeds RPI plus 30%. If such growth falls between those two threshold target levels, the percentage of LTIP Award Shares which vest will vary on a pro rata basis between 25% and 100%.

The following number of nil-cost LTIP Award Shares have been granted and are outstanding:

Year of Grant	2006	2005
A.J.D. Locke	136,496	156,090
M.J.L. Salter	73,154	89,870
P.J. Milne	80,291	89,870
H.W. Temmen	61,297	60,275
M.A. White	80,291	89,870
	431,529	485,975
Share price at grant	£3.08	£2.11

The following awards of nil-cost LTIP Annual Shares, made in 2004, in respect of the three-year period 2004 to 2006, will vest:

	No of shares 2006	Gain £'000
A.J.D. Locke	122,056	342
M.J.L. Salter	69,746	195
P.J. Milne	69,746	195
H.W. Temmen	45,023	126
M.A. White	65,871	184
	372,442	1,042

The share price at close of business on 16 March 2007 of £2.80 has been used to calculate the gain.

As anticipated, the acquisition of Songa Drilling in June 2006 has had a significant impact on 2006 financials. It has had a short-term dilutive effect on 2006's earnings because, whilst the consideration was paid in 2006 (and hence substantial interest costs were incurred), only one of the three jack-ups acquired generated revenue during the rest of the year whilst the other two rigs continued their refurbishment and upgrade throughout this period. In addition a total of 47,743,925 new ordinary shares in Abbot were issued in relation to the acquisition. The Committee deemed it appropriate to exclude the effects of the Songa acquisition and to measure performance over the three-year period by using the adjusted earnings per share figure, excluding these effects. After taking into account an inflation figure rate of 8.6% over the three-year period, an award of 65% of the LTIP Annual Shares was made. This adjusted earnings per share figure used to calculate the above award will be used as the base figure upon which measurement of growth over the 2007 and 2009 period will be based.

Pension Arrangements

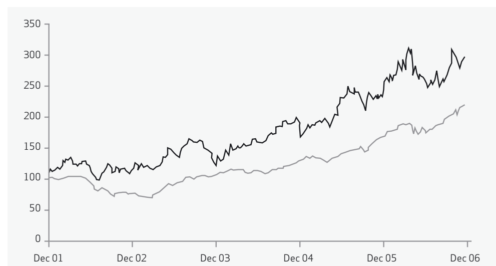
Four of the executive directors are members of Group final salary pension schemes. Their dependents are eligible for dependents' pensions and the payment of a lump sum in the event of death in service.

With the enactment of new pension legislations from April 2006 ("A-Day"), it was decided to retain Her Majesty's Revenue and Customs ("HMRC") previous restrictions on pensionable salary, and therefore to the extent that a director's benefits from a Group scheme remain restricted top-up cash payments are made to the individual. Such payments, to M.J.L. Salter and M.A. White, are included under the benefits-in-kind category in the table of directors' emoluments. There are no unfunded pension promises or similar arrangements for directors.

The Company agreed with A.J.D. Locke to re-structure his remuneration package from A-Day. The Company has agreed to make a payment equal to the maximum annual allowance under HMRC rules of £215,000 for tax year 2006/07 to his personal pension plan, with a corresponding reduction in salary amounting to the difference between the maximum annual allowance past A-Day and the maximum allowance pre A-Day of £31,680, being his previous pension entitlement.

Performance Graph

The following graph shows the Company's performance, measured by total shareholder return over a five-year period, compared with the performance of the FTSE 250 Share Index which is considered the most appropriate index for comparison purposes.



Total shareholder returns for Abbot over the past five years vs. FTSE 250

— Abbot Group: Total Return Index
— FTSE 250 Share: Total Return Index

The Board believes that the out performance of the Company's shareholder return compared to the FTSE 250 Index over the five-year period from 2002 to 2006 is as a result of the Company's growth and prospects, particularly in overseas markets, and the favourable market conditions in the oil industry due to the strength of the oil price.

Directors' Contracts

It is the Company's policy that executive directors should have contracts with an indefinite term providing for a period of one year's notice. Non-executive directors' contracts include notice periods of three months.

A.J.D. Locke and P.J. Milne who are proposed for re-election at the next Annual General Meeting, both have service contracts which provide for a notice period of one year.

R.A. Duncan who is proposed for re-election at the next Annual General Meeting, has a service contract which provides for a notice period of three months.

In the event of early termination, the executive directors' contracts provide for compensation up to a maximum of basic salary plus benefits for the notice period.

Non-Executive Directors

All non-executive directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The basic annual fee paid to each non-executive director in 2006 was £27,500 with an additional £5,000 per annum paid to the Chairman of the Audit Committee. Non-executive directors cannot participate in the Company's annual or long-term incentive schemes and are not eligible to join the Company's pension scheme.

Audited Information

Aggregate Directors' Remuneration

The total amounts for directors' remuneration were as follows:

	2006 £'000	2005 £'000
Emoluments, including money purchase contributions	2,275	1,414
Gain on vesting of shares	1,338	245
	3,613	1,659

Directors' Emoluments

Name of director	Fees/Basic salary £'000	Benefits -in-kind £'000	Other emoluments £'000	2006 Total £'000	2005 Total £'000
A.J.D. Locke	312	3	191	506	247
M.J.L. Salter	225	22	163	410	346
P.J. Milne	247	8	180	435	348
H.W. Temmen	185	11	134	330	–
M.A. White	247	27	180	454	367
R.A. Duncan	32	–	–	32	28
J. Ferrán	27	–	–	27	14
J.W. Hollis	27	–	–	27	23
G.M. Philipps (resigned 17/05/05)	–	–	–	–	11
I.M. Smith	27	–	–	27	7
G.E. Watkins	27	–	–	27	23
	1,356	71	848	2,275	1,414

The above Fees/Basic salary figure for A.J.D. Locke of £312,000 includes payment of £169,000 made to his personal pension plan as described in the Pension Arrangements paragraph above.

The following annual bonuses were awarded for 2006 under the terms of the Annual Plan:

A.J.D. Locke	£191,000
M.J.L. Salter	£163,000
P.J. Milne	£180,000
H.W. Temmen	£134,000
M.A. White	£180,000

Directors have until the end of March 2007 to elect whether to take any part of such bonus in the form of Annual Award Shares.

In respect of the bonuses awarded in prior years under the terms of the Annual Plan, directors have elected to take part/all of their bonuses in the form of Annual Award Shares, and the following number of nil-cost Matching Share Awards have been granted:

Bonus year	2004	2005
Vesting year	2008	2009
Share price at grant £	2.16	3.01
M.J.L. Salter	7,793	–
P.J. Milne	13,665	–
H.W. Temmen	892	7,637
M.A. White	12,906	9,121

In 2006, the following Matching Share Awards vested:

	No of shares	Gain 2006 £'000	Gain 2005 £'000
M.J.L. Salter	11,786	35	69
P.J. Milne	50,000	148	93
H.W. Temmen	2,480	7	–
M.A. White	35,714	106	83
	99,980	296	245

The share price of £2.955 at date of vesting has been used to calculate the 2006 gain.

Directors' Pension Entitlements

At 31 December 2006 there were four directors (2005: four) to whom benefits were accruing under Group defined benefit pension schemes as follows:

Name of director	Age at year end	Accrued pension 31 Dec '05 £'000	Increase in accrued pension £'000	Accrued pension 31 Dec '06 £'000
M.J.L. Salter	59	37	5	42
P.J. Milne	52	96	37	133
H.W. Temmen	40	22	15	37
M.A. White	54	46	5	51

The accrued pension entitlements shown are those which would be paid annually from age 60 based on length of service at the end of 2006, and includes entitlements earned as an employee, prior to becoming a director as well as those earned for qualifying services as a director. Basic salary only is pensionable. Inflation has a negligible effect on the increase accrued in the year.

Set out below are details of the pension benefits to which each of the executive directors is entitled to in respect of qualifying services, that is, services after becoming a director.

Name of director	Age at year end	Accrued pension 31 Dec '05 £'000	Increase in accrued pension £'000	Accrued pension 31 Dec '06 £'000
M.J.L. Salter	59	37	5	42
P.J. Milne	52	66	29	95
H.W. Temmen	40	–	2	2
M.A. White	54	15	4	19

Premiums of £169,000 (2005: £25,000) were paid to a personal pension plan for A.J.D. Locke. (See note under Pension Arrangements above).

The following is additional information relating to the pensions of M.J.L. Salter, P.J. Milne and M.A. White under a UK Group defined benefit pension scheme:

(a) Normal retirement age:
60

(b) Dependents' rights:
Dependents' pension payable at 60% of full rate

(c) Early retirement rights:
Retirement after age 50, with pension calculated on actual years service completed, with reduction in annual amount to take account of longer payment period

(d) Pension increase:
RPI up to a maximum of 5% per annum

(e) Other discretionary benefits:
None

(f) Director contribution rate:
7.5% of pensionable salary

The following is additional information relating to the pension of H.W. Temmen under a German Group defined benefit pension scheme:

(a) Normal Retirement Age:
60

(b) Dependents' rights:
Pension of 60% of full rate plus 20% for each child up to a maximum of 100%

(c) Early retirement rights:
None

(d) Pension increase:
Adjusted every three years in line with inflation subject to Company performance

(e) Other discretionary benefits:
None

(f) Director contribution rate:
Nil

The following table sets out the transfer value of the directors' accrued benefits under the scheme calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN 11)" published by the Institute of Actuaries and the Faculty of Actuaries.

Name of director	Transfer value 31 Dec '05 £'000	Contribution made by director £'000	Increase in transfer value in the year net of contribution £'000	Transfer value 31 Dec '06 £'000
M.J.L. Salter	678	8	93	779
P.J. Milne	1,328	18	491	1,837
H.W. Temmen	128	–	86	214
M.A. White	708	8	73	789

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

Directors' Shareholdings

The interests of the directors who held office at 31 December 2006 in the ordinary share capital of the Company were as follows:

	Number of ordinary shares 31 December 2006	31 December 2005
A.J.D. Locke	30,000,000	30,000,000
M.J.L. Salter	190,228	183,275
P.J. Milne	228,240	198,740
H.W. Temmen	13,148	3,071
M.A. White	162,368	130,535
R.A. Duncan	30,000	20,000
J. Ferrán	–	–
J.W. Hollis	30,000	25,000
I.M. Smith	–	–
G.E. Watkins	10,000	10,000

There have been no changes in the interests of the directors between 31 December 2006 and 16 March 2007.

Approval

This report was approved by the Board of directors on 16 March 2007 and signed on its behalf by:

Dr George E. Watkins

Chairman of Remuneration Committee

Financial Statements

Consolidated Income Statement
for the year ended 31 December 2006

	Note	2006 $'000	2005 $'000
Continuing operations			
Revenue	4	**1,162,890**	684,958
Cost of sales		**(1,002,089)**	(566,188)
Gross profit		**160,801**	118,770
Administrative expenses		**(64,117)**	(62,787)
Amortisation of intangible fixed assets (customer relationships)		**(10,453)**	(2,364)
Operating profit	4	**86,231**	53,619
Finance costs	6	**(34,271)**	(7,197)
Finance income	6	**3,152**	1,548
Share of results of associates		**273**	(117)
Profit before taxation	7	**55,385**	47,853
Analysed as:			
Profit before taxation before exceptional items		**55,385**	45,936
Exceptional items	5	**–**	1,917
Taxation	8	**(21,350)**	(16,685)
Profit for the year from continuing operations		**34,035**	31,168
Loss from a discontinued operation	9	**(3,356)**	(16,543)
Profit for the year		**30,679**	14,625
Attributable to:			
Equity holders of the Company		**31,155**	16,071
Minority interest	28	**(476)**	(1,446)
		30,679	14,625
Earnings per share (cents)			
Basic and diluted for profit from continuing operations attributable to ordinary equity holders of the Company	11	**16.3c**	17.5c
Basic and diluted for profit from total operations attributable to ordinary equity holders of the Company	11	**14.7c**	8.2c

The Company has taken advantage of the exemption in Section 230 of the Companies Act 1985 not to present its own profit and loss account.

Statements of Recognised Income and Expense
for the year ended 31 December 2006

	Group		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash flow hedges:				
– net fair value movement on cash flow hedges	**(2,243)**	(1,614)	**–**	716
– recycled and reported in net profit	**304**	(429)	**(680)**	369
Exchange differences on translation of foreign operations	**(11,069)**	(37,032)	**50,865**	(31,864)
Actuarial gains (losses) on defined benefit pension schemes	**1,205**	(4,338)	**867**	(438)
Net (losses) gains not recognised in income statement	**(11,803)**	(43,413)	**51,052**	(31,217)
Profit (loss) for the year	**30,679**	14,625	**(9,813)**	(18,896)
Total recognised income (expense) for the year	**18,876**	(28,788)	**41,239**	(50,113)
Total recognised income for the year is attributable to:				
Equity shareholders of the Company	**19,352**	(27,342)	**41,239**	(50,113)
Minority interest	**(476)**	(1,446)	**–**	–
	18,876	(28,788)	**41,239**	(50,113)

Balance Sheets
31 December 2006

	Note	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Assets					
Non-current assets					
Property, plant and equipment	12	**803,972**	341,528	**59,258**	47,531
Goodwill	13	**562,974**	179,586	**–**	–
Intangible assets	14	**74,253**	33,230	**12,931**	–
Investments	15	**10,447**	527	**608,868**	396,529
Deferred tax assets	24	**3,749**	4,929	**–**	–
		1,455,395	559,800	**681,057**	444,060
Current assets					
Inventories and work in progress	16	**100,490**	73,207	**–**	–
Trade and other receivables	17	**345,761**	227,843	**330,827**	213,843
Financial assets – derivative financial instruments	22	**1,744**	680	**6**	680
Cash and cash equivalents	18	**45,232**	105,472	**52,475**	72,595
		493,227	407,202	**383,308**	287,118
Assets of disposal group held for sale		**–**	4,059	**–**	–
		493,227	411,261	**383,308**	287,118
Total assets		**1,948,622**	971,061	**1,064,365**	731,178
Liabilities					
Current liabilities					
Trade and other payables	19	**(270,280)**	(218,112)	**(157,896)**	(136,026)
Tax liabilities		**(30,422)**	(22,784)	**–**	–
Financial liabilities					
Borrowings	20	**(292,994)**	(130,947)	**(175,746)**	(121,766)
Derivative financial instruments	22	**(3,667)**	(620)	**(51)**	–
Provisions	23	**(2,656)**	(3,614)	**–**	–
		(600,019)	(376,077)	**(333,693)**	(257,792)
Liabilities of disposal group held for sale		**–**	(7,142)	**–**	–
		(600,019)	(383,219)	**(333,693)**	(257,792)
Non-current liabilities					
Financial liabilities – borrowings	20	**(666,505)**	(195,830)	**(136,284)**	(192,445)
Deferred tax liabilities	24	**(9,254)**	(1,195)	**–**	–
Retirement benefit obligations	34	**(119,874)**	(106,888)	**(3,129)**	(3,723)
Other non-current liabilities	21	**(756)**	(4,493)	**–**	–
Provisions	23	**(6,506)**	(4,608)	**–**	–
		(802,895)	(313,014)	**(139,413)**	(196,168)
Total liabilities		**(1,402,914)**	(696,233)	**(473,106)**	(453,960)
Net assets		**545,708**	274,828	**591,259**	277,218
Capital and reserves attributable to Company's equity shareholders					
Share capital	25	**66,288**	53,004	**66,288**	53,004
Share premium reserve	26	**456,619**	206,531	**456,619**	206,531
Other reserves	29,30	**(49,084)**	(36,076)	**19,020**	(31,165)
Retained earnings	27	**70,320**	52,785	**49,332**	48,848
Total shareholders' equity		**544,143**	276,244	**591,259**	277,218
Equity minority interest	28	**1,565**	(1,416)	**–**	–
Total equity		**545,708**	274,828	**591,259**	277,218

The financial statements on pages 42 to 75 were approved by the Board of Directors on 16 March 2007 and were signed on its behalf by:

A.J.D. Locke
Director

P.J. Milne
Director

Cash Flow Statements
for the year ended 31 December 2006

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Cash generated from operations				
Profit (loss) for the year	**30,679**	14,625	**(9,813)**	(18,896)
Adjustments for:				
tax charge (credit)	**21,350**	16,685	**(336)**	(827)
depreciation	**57,666**	46,039	**3,682**	453
impairment of goodwill	**–**	10,331	**–**	–
impairment of investment	**–**	–	**–**	18,211
amortisation of intangible assets – customer relationships	**10,453**	2,364	**–**	–
amortisation of intangible assets – other	**809**	174	**325**	–
gain on sale of property, plant and equipment	**(1,665)**	(5,642)	**–**	(4,551)
loss on sale of disposal group (note 9)	**1,453**	–	**–**	–
net movement in provisions and other liabilities and retirement benefit obligations	**6,710**	(11,834)	**795**	(216)
accrual in respect of share-based awards	**5,212**	(427)	**1,443**	(651)
net finance cost	**31,583**	6,866	**8,885**	(1,247)
share of associates post-tax results	**(273)**	117	**–**	–
Changes in working capital:				
(increase) in inventories and work in progress	**(26,797)**	(40,129)	**–**	–
(increase) in trade and other receivables	**(76,099)**	(56,373)	**(618)**	(18,299)
(decrease) increase in trade and other payables	**(8,897)**	82,378	**359**	13,746
Exchange differences	–	–	**–**	8,193
Cash generated from (used in) operations	**52,184**	65,174	**4,722**	(4,084)
Cash flows from operating activities				
Cash generated from (used in) operations	**52,184**	65,174	**4,722**	(4,084)
Tax paid	**(23,992)**	(13,608)	**–**	–
Net cash from (used in) operating activities	**28,192**	51,566	**4,722**	(4,084)
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired and settlement of intercompany	**(199,628)**	(132,997)	**192**	(238,458)
Disposal of subsidiary, net of cash disposed and settlement of intercompany	**1,896**	–	**–**	–
Purchases of property, plant and equipment	**(236,138)**	(100,248)	**(9,180)**	(43,843)
Proceeds from sale of property, plant and equipment	**13,013**	22,095	**–**	17,324
Purchase of intangible assets	**(12,302)**	(240)	**(12,150)**	–
Other investments	**(9,573)**	(209)	**–**	
Interest paid including capitalised interest	**(42,207)**	(9,616)	**(32,238)**	(9,869)
Interest received	**2,214**	1,548	**24,444**	11,912
Dividends received	**–**	–	**27,518**	6,361
Net cash (used in) from investing activities	**(482,725)**	(219,667)	**(1,414)**	(256,573)
Cash flows from financing activities				
(Costs) proceeds from issue of ordinary shares	**(82)**	36,359	**(81)**	36,359
Net proceeds from borrowings	**907,921**	255,395	**313,027**	255,395
Repayments from borrowings	**(478,581)**	(12,283)	**(335,408)**	(10,938)
Inflows from Group lendings	**–**	–	**21,307**	44,169
Consideration paid in respect of own shares held in an ESOP trust	**(1,383)**	(8,306)	**(188)**	–
Consideration received in respect of own shares held in an ESOP trust	**877**	407	**–**	–
Dividends paid to shareholders	**(19,531)**	(15,887)	**(19,531)**	(15,887)
Net cash generated from (used in) financing activities	**409,221**	255,685	**(20,874)**	309,098
Effects of exchange rate changes	**(3,243)**	(1,026)	**(2,554)**	(3,606)
Net (decrease) increase in cash and bank overdrafts	**(48,555)**	86,558	**(20,120)**	44,835
Cash and cash equivalents at 1 January	**93,787**	7,229	**72,595**	27,760
Cash and cash equivalents at 31 December	**45,232**	93,787	**52,475**	72,595

Cash and cash equivalents as set out above in the Cash Flow Statements include overdraft facilities which form part of the Group's cash management.

1 Basis of preparation

These financial statements are presented in US dollars as the Group changed its presentation currency from £ sterling to US dollars with effect from 1 January 2006. All comparative figures have been restated in US dollars at the applicable exchange rates.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. A summary of the more important Group accounting policies is set out below, together with an explanation of where any changes have been made to previous policies on the adoption of new accounting standards in the year.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated or deconsolidated from the effective date control is transferred to or from the Company. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any excess of the fair values of the identifiable net assets over the cost of acquisition is recognised directly in the income statement.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

(ii) Associates
An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate less any impairment in the value of the individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the costs of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any excess of the Group's share of the fair values of the identifiable net assets of the associate over the costs of acquisition is recognised directly in the income statement.

Where a Group company transacts with an associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

b) Foreign currency translation

(i) Functional and presentation currency
The consolidated financial statements are presented in US dollars. With effect from 1 January 2006 the Group changed its presentation currency from £ sterling to US dollars. All comparative figures have been restated in US dollars. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operated (the functional currency).

(ii) Transactions and balances
Transactions denominated in foreign currencies are translated and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Gains and losses arising on retranslation are recognised in the income statement for the year, except where hedge accounting is applied.

(iii) Group companies
On consolidation, the assets and liabilities of the Group's non-US dollar functional entities are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at average monthly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the actual transaction rate will be used). All resulting exchange differences are recognised as a separate component of equity. Such translation differences are recognised in the income statement in the year in which the operation is disposed of.

(iv) Goodwill and fair value adjustments
Goodwill and fair value adjustments arising on the acquisition of a non-US dollar functional entity are treated as assets and liabilities of the non-US dollars functional entity and translated at the closing exchange rate.

c) Goodwill

Goodwill arising on consolidation (representing the excess of fair value of the consideration given over the fair value of the separable net assets acquired) is recognised as an asset and reviewed for impairment at least annually. On disposal of an entity the attributable amount of goodwill is included in the determination of profit and loss on disposal. Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

d) Other intangible assets
Intangible assets are recognised at cost less accumulated amortisation. On acquisition of an entity, intangible assets are identified and evaluated to determine the carrying value on the acquisition balance sheet. Amortisation is provided to write off the cost of each asset over their estimated useful lives, using the straight-line method, over a 2-7 year period.

e) Property, plant and equipment
Property, plant and equipment held for use in the Group's operations, or for administrative purposes, are stated in the balance sheet at cost, net of depreciation and any provision for impairment. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset over their estimated useful lives, using the units of production method for drilling rigs and equipment, or the straight-line method for other assets, on the following basis:

Freehold buildings	50 years
Leasehold land	50 years
Leasehold buildings	50 years (or over the unexpired lease, if shorter)
Plant, machinery and vehicles	2-10 years
Drilling rigs and equipment	3-16 years

Drilling rigs and equipment are not depreciated if temporarily not operational. Assets in the course of construction are not depreciated until brought into use.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

f) Impairment
The Group performs impairment reviews in respect of goodwill annually, and other intangible assets and property, plant and equipment when circumstances indicate that the carrying amount may not be recoverable.

g) Capitalisation of borrowing costs and interest
Borrowing costs directly attributable to the construction of tangible fixed assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the year in which they are incurred.

h) Investments
Investments held as fixed assets are shown at cost less appropriate provision where the directors consider that impairment in value has occurred. Investments are considered for impairment at least annually.

i) Inventories
Stocks of spare parts which are held for use in the Group's drilling operations are stated at weighted average cost less a provision in respect of those spares attached to the older rigs and equipment. Other stocks and work in progress are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

j) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits with maturities of less than three months held with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

k) Taxation
The tax charge represents the sum of tax currently payable and deferred tax. Tax currently payable is based on the taxable profit for the year. Taxable profit differs from the profit reported in the income statement due to items that are not taxable or deductible in any period and also due to items that are taxable or deductible in a different period. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward and, in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base. Tax rates enacted, or substantially enacted, by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

l) Employee benefits

(i) Pension obligations
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the year in which they occur. They are recognised outside the income statement, through the statement of recognised income and expense.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of any scheme assets.

(ii) Share-based plans
The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

m) Financial assets and liabilities
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Derivative financial instruments and hedge accounting
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operation (net investment hedges). The Group currently only uses cash flow hedges and did not enter into any fair value or net investment hedges during the reporting period.

Where hedging is to be undertaken, the Group documents at the inception of the transactions the relationship between the hedging instrument and the hedging item, as well as its risk management objective and strategy for undertaking the hedge transaction.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Group performs effectiveness testing on a semi-annual basis.

Changes in the fair value of cash flow hedges that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

The fair value of the interest rate swaps is estimated based on the discounting of expected future cash flows at prevailing interest rates at the balance sheet date.

The fair value of the forward currency contracts has been estimated based on market forward exchange rates at the balance sheet date.

(ii) Bank borrowings
Interest-bearing bank loans and overdrafts are initially recorded at fair value including directly attributable transaction costs. Subsequent measurement is at amortised cost using the effective interest method.

n) Provisions
Provisions are measured at the net present value of the directors' best estimate of the expenditure required to settle the present obligation at the balance sheet date. A discount is applied to the provision for the time value of money where this is significant. Provisions are provided where there is a present obligation based on past events that it is probable that an outflow will be required and the financial outcome can be reliably measured.

o) Profit from operations
Profit from operations is stated after the share of results of associates, net of taxation, but before investment income and finance costs.

p) Revenue recognition
Revenue is recognised at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of value-added tax and other sales related taxes.

Revenue from drilling operations is recognised in the accounting period in which the services are rendered.

Recognition of revenue from engineering contracts is described in q) below.

Incentive income is recognised when earned.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

q) Engineering contracts
Where the outcome of a long-term engineering contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Revenue variations in contract work, claims and incentive payments are included to the extent that they have been agreed in writing by the customer.

Where the outcome of an engineering contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the year in which they are incurred. When it is probable that total contract costs will exceed total revenue, the expected loss is recognised in full as an expense immediately.

r) Leases
Rentals payable on operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

s) Disclosure of impact of new and future accounting standards
IFRIC4 "Determining whether an arrangement contains a lease" became applicable in 2006. IFRIC4 contains guidance on determining whether arrangements that do not take the legal form of a lease should nevertheless be accounted for in accordance with ISA17 "Leases". The Group uses the guidance of IFRIC4 in assessing its contracts for the purpose of identifying leases.

Other new standards and interpretations issued in 2006 have not had a material impact on the Group's financial statements.

The future accounting standards that may affect the Group in 2007 and 2008 are as follows:

– IFRS7 "Financial Instruments: Disclosures" became effective 1 January 2007, consolidates IAS30 and the disclosure requirements of IAS32 relating to financial instruments. We do not anticipate that this standard will have any material impact on the Group's financial statements.

– IFRS8 "Operating Segments" will replace IAS14 "Segment Reporting" and proposes that entities adopt a management approach to reporting financial performance. We do not anticipate that this standard will have any material impact on the Group's financial statements.

3 Significant accounting judgements and estimates

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Where significant estimates or assumptions have been applied in estimating balances in the financial statements, these have been disclosed in the relevant notes to those balances. Significant judgements and estimates in these financial statements have been made with regard to provisions (note 23), goodwill impairment testing (note 13), deferred tax balances (note 24) and for retirement benefit liabilities (note 34). An explanation of key uncertainties or assumptions used by management in accounting for these items is explained where material in the respective notes.

4 Segmental reporting

The Group's primary segment reporting format is determined to be business segments. The Group is currently organised into three continuing business segments – Drilling, Engineering and Corporate.

Principal activities are as follows:

Drilling – the provision of offshore platform drilling, land rig drilling and mobile offshore drilling services
Engineering – the provision of drilling rig design, construction and engineering services
Corporate – administration and related expenses of the Company

Business segments
The following tables present revenue and profit and certain asset and liability information regarding the Group's business segments for the years ended 31 December 2006 and 2005.

	Continuing operations						
Year ended 31 December 2006	Drilling $'000	Engineering $'000	Corporate $'000	Eliminations $'000	Total $'000	Discontinued operation $'000	Total operations $'000
Revenue							
External revenue	827,955	334,737	198	–	1,162,890	1,784	1,164,674
Inter segment revenue	1,632	100,731	–	(102,363)	–	–	–
Total revenue	829,587	435,468	198	(102,363)	1,162,890	1,784	1,164,674
Results							
Segment results before intangible asset amortisation	77,182	28,014	(8,512)	–	96,684	(2,892)	93,792
Intangible asset amortisation	(10,453)	–	–	–	(10,453)	–	(10,453)
Segment results	66,729	28,014	(8,512)	–	86,231	(2,892)	83,339
Net finance costs					(31,119)	(464)	(31,583)
Share of results of associates					273	–	273
Profit before taxation					55,385	(3,356)	52,029
Taxation					(21,350)	–	(21,350)
Profit for the year					34,035	(3,356)	30,679
Assets and liabilities							
Segment assets	1,834,782	62,663	5,945	–	1,903,390	–	1,903,390
Unallocated assets					45,232	–	45,232
Total assets					1,948,622	–	1,948,622
Total liabilities	(1,303,850)	(79,920)	(19,144)	–	(1,402,914)	–	(1,402,914)
Other segment information							
Capital expenditure including acquisitions:							
Property, plant and equipment	516,796	926	–	–	517,722	–	517,722
Intangible assets	48,984	52	–	–	49,036	–	49,036
Depreciation (note 12)	(56,853)	(542)	–	–	(57,395)	–	(57,395)
Amortisation of intangible assets	(10,870)	(392)	–	–	(11,262)	–	(11,262)

Included under Drilling segment above are revenues of $17,546,000 and operating profits (results) of $8,244,000 relating to the acquisition of Songa Drilling AS during the year.

4 Segmental reporting (continued)

	Continuing operations						
Year ended 31 December 2005	Drilling $'000	Engineering $'000	Corporate $'000	Eliminations $'000	Total $'000	Discontinued operation $'000	Total operations $'000
Revenue							
External revenue	510,251	174,707	–	–	684,958	9,611	694,569
Inter segment revenue	1,661	47,681	–	(49,342)	–	–	–
Total revenue	511,912	222,388	–	(49,342)	684,958	9,611	694,569
Results							
Segment results before goodwill impairment, intangible asset amortisation and exceptional items	45,103	13,351	(5,553)	–	52,901	(4,568)	48,333
Goodwill impairment, intangible asset amortisation and exceptional items	(2,364)	–	3,082	–	718	(10,758)	(10,040)
Segment results	42,739	13,351	(2,471)	–	53,619	(15,326)	38,293
Net finance costs					(5,649)	(1,217)	(6,866)
Share of results of associates					(117)	–	(117)
Profit before taxation					47,853	(16,543)	31,310
Taxation					(16,685)	–	(16,685)
Profit for the year					31,168	(16,543)	14,625
Assets and liabilities							
Segment assets	784,597	65,302	11,361	–	861,260	4,059	865,319
Investments accounted for using equity method					270	–	270
Unallocated assets					105,472	–	105,472
Total assets					967,002	4,059	971,061
Total liabilities	(604,369)	(71,977)	(12,745)	–	(689,091)	(7,142)	(696,233)
Other segment information							
Capital expenditure (including acquisitions):							
Property, plant and equipment	144,406	467	162	–	145,035	1,839	146,874
Intangible assets	29,051	133	–	–	29,184	–	29,184
Depreciation (note 12)	44,305	471	275	–	45,051	987	46,038
Amortisation of intangible assets	2,570	111	–	–	2,681	–	2,681
Impairment of goodwill	–	–	–	–	–	10,331	10,331

All inter segment revenues are priced on an arm's length basis and are fully eliminated on consolidation.

Results arising from revenues between segments are not material.

Unallocated assets and liabilities include cash.

4 Segmental reporting (continued)

Geographic segments
The Group manages its business segments on a global basis. The operations are based in five main geographical areas. The UK is the home country of the parent. The main operations in the principal territories are as follows:

- North Sea and Europe
- Caspian and Russia
- Middle East
- Africa
- Other

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2006 and 2005.

Year ended 31 December 2006	North Sea and Europe $'000	Caspian and Russia $'000	Middle East $'000	Africa $'000	Other* $'000	Total $'000
Revenue						
External revenue	496,389	380,252	108,721	113,592	65,720	1,164,674
Revenue attributable to discontinued operation	–	–	–	–	(1,784)	(1,784)
Segment revenue from continuing operations	496,389	380,252	108,721	113,592	63,936	1,162,890
Other segment information						
Segment assets	585,537	210,446	115,095	135,360	336,025	1,382,463
Unallocated assets**						566,159
Total assets of continuing operations						1,948,622
Capital expenditure of continuing operations:						
Property, plant and equipment	26,018	26,651	30,570	41,729	123,737	248,705
Unallocated property, plant and equipment					268,794	268,794
Intangible assets	12,302	–	–	–	36,734	49,036

* "Other" includes amounts relating to Songa Jupiter rig working in Mexico.
** Unallocated assets include amounts relating to the Songa Tellus and Neptune rigs.

Year ended 31 December 2005	North Sea and Europe $'000	Caspian and Russia $'000	Middle East $'000	Africa $'000	Other $'000	Total $'000
Revenue						
External revenue	335,124	152,172	99,906	74,261	33,106	694,569
Revenue attributable to discontinued operation	–	–	–	–	(9,611)	(9,611)
Segment revenue from continuing operations	335,124	152,172	99,906	74,261	23,495	684,958
Other segmental information						
Segment assets	432,299	178,288	83,541	117,546	53,645	865,319
Investments accounted for using equity method						270
Unallocated assets						105,472
Total assets of continuing operations						971,061
Capital expenditure of continuing operations:						
Property, plant and equipment	69,741	14,709	14,607	19,373	28,444	146,874
Intangible fixed assets	29,170	9	5	–	–	29,184

5 Exceptional items

	2006 $'000	2005 $'000
Gain on sale of property	–	4,567
Aborted acquisition costs	–	(1,485)
Bank facility restructuring fees	–	(1,165)
	–	1,917

6 Finance costs – net

	2006 $'000	2005 $'000
Interest payable on bank borrowings	(41,637)	(7,908)
Commitment fees	(992)	–
Amortisation of arrangement fees	(1,115)	–
Less amounts included in the cost of fixed assets	9,501	1,876
Finance costs, excluding exceptional items	(34,243)	(6,032)
Exceptional items	–	(1,165)
Other interest payable	(28)	–
Finance costs	(34,271)	(7,197)
Bank interest receivable	2,178	541
Other interest receivable	36	1,007
Other finance income	938	–
Finance income	3,152	1,548
Finance costs – net	(31,119)	(5,649)
Finance cost of discontinued operation	(464)	(1,217)

7 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2006 $'000	2005 $'000
Employee benefits expense (note 33)	391,223	263,341
Employee share schemes	38	(173)
Cost of inventories recognised as an expense	25,147	15,732
Movement on provision for impairment of inventory	1,038	1,209
Depreciation of property, plant and equipment	57,395	46,039
Impairment of goodwill	–	10,331
Amortisation of intangibles	11,262	2,538
Net (gains) on disposal of property, plant and equipment	(1,665)	(5,642)
Operating lease rentals payable:		
– properties	8,520	5,598
– vehicles, plant and equipment	2,664	694
Net foreign exchange differences	2,038	(164)

Details of the employee share schemes are included within the Directors' Remuneration Report on pages 36 to 40.

7 Profit before taxation (continued)

Audit Remuneration
Services provided by the Group's auditors and network firms
During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at the following costs:

	2006 $'000	2005 $'000
Audit services		
Fees payable to Company's auditor for the audit of parent company and consolidated accounts	**335**	270
Non audit services		
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**469**	327
Other services pursuant to legislation	**331**	116
Taxation services	**234**	187
Corporate finance services	**687**	294
Other services	**27**	–
	2,083	1,194

8 Taxation

	2006 $'000	2005 $'000
Current tax		
Current year	**28,735**	17,350
Adjustments in respect of prior year	**(2,155)**	(790)
	26,580	16,560
Deferred tax (note 24)		
Current year	**(5,527)**	933
Adjustments in respect of prior years	**297**	(808)
	(5,230)	125
Total tax charge	**21,350**	16,685

The tax charge for the year equates to a rate of 32.4% (2005: 32.4%) on the profit before taxation after adding back amortisation of certain intangible fixed assets.

The Group has substantial activities in overseas tax jurisdictions where rates of tax vary from that in the UK. The Group's effective rate of tax is therefore subject to fluctuation depending upon where the Group obtains contracts, the effective tax rates in the countries concerned and the availability of double tax relief. The tax charge for the year is higher (2005: higher) than the standard rate of corporate tax in the UK (30%) due to the following factors:

	2006 $'000	2005 $'000
Profit before taxation	**55,385**	47,853
Profit before taxation at standard rate of corporate tax in the UK 30%	**16,615**	14,356
Effects of:		
Adjustments in respect of prior years	**(1,858)**	(1,598)
Adjustments in respect of foreign taxes	**2,762**	1,984
Amortisation of intangibles not deductible for tax purposes	**3,136**	757
Expenses not deductible for tax purposes	**695**	1,186
	21,350	16,685

9 Discontinued operation

In April 2006 the Group disposed of its interest in Spear Technologies Inc ("Spear").

The results of Spear for the periods are presented below:

	2006 $'000	2005 $'000
Revenue	**1,784**	9,611
Expenses	**(1,148)**	(5,987)
Gross profit	**636**	3,624
Administrative expenses	**(2,075)**	(8,192)
Loss on disposal	**(1,453)**	–
Finance costs	**(464)**	(1,217)
Impairment of goodwill and other costs	**–**	(10,758)
Loss before tax from a discontinued operation	**(3,356)**	(16,543)
Tax	**–**	–
Loss for the period from a discontinued operation	**(3,356)**	(16,543)
Earnings per share: Basic and diluted from discounted operation in US$	**(1.6c)**	(9.3c)

At 31 December 2005 the assets and liabilities of Spear were shown as "disposal group held for sale" in the Group Balance Sheet.

10 Dividends

	2006 $'000	2005 $'000
Declared and paid during the year		
Dividends on ordinary shares:		
Final dividend for the year ended 31 December 2004 3.20p	**–**	10,320
Interim dividend for the year ended 31 December 2005 1.70p	**–**	5,567
Final dividend for the year ended 31 December 2005 3.30p	**11,390**	–
Interim dividend for the year ended 31 December 2006 1.85p	**8,141**	–
	19,531	15,887

The directors are proposing a final dividend in respect of the financial year ending 31 December 2006 of 3.65p per share which will absorb an estimated $16.6 million of shareholders' funds. It will be paid on 1 June 2007 to shareholders who are on the register of members on 4 May 2007. Dividend amounts are stated in £ sterling as this is the functional currency of the Company.

11 Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust. Adjusted earnings per share is disclosed to show the results excluding the impact of amortisation of intangibles assets, exceptional items and discontinued operations.

There are no differences in the calculations of basic earnings per share and diluted earnings per share.

The following reflects the income and share data used in the basic, diluted and adjusted basic earnings per share calculations:

	Basic/diluted		Adjusted basic	
a) Continuing operations	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Profit attributable to ordinary equity holders of the Company from continuing operations	**34,035**	31,168	**34,035**	31,168
Amortisation of intangible assets (customer relationships)	**–**	–	**10,453**	2,364
Exceptional items, net of any taxation effects	**–**	–	**–**	(898)
	34,035	31,168	**44,488**	32,634
Weighted average number of ordinary shares	**209,346,166**	178,179,429	**209,346,166**	178,179,429
Earnings per share from continuing operations in US$	**16.3c**	17.5c	**21.3c**	18.3c

	Basic/diluted		Adjusted basic	
b) Total	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Profit attributable to ordinary equity holders of the Company	**30,679**	14,625	**30,679**	14,625
Amortisation of intangible assets (customer relationships)	**–**	–	**10,453**	2,364
Exceptional items, net of any taxation effects	**–**	–	**–**	(898)
	30,679	14,625	**41,132**	16,091
Weighted average number of ordinary shares	**209,346,166**	178,179,429	**209,346,166**	178,179,429
Earnings per share in US$	**14.7c**	8.2c	**19.6c**	9.0c

12 Property, plant and equipment

Group	Land and buildings – long leasehold and freehold $'000	Drilling rigs and equipment $'000	Plant, machinery and vehicles $'000	Total $'000
Cost				
At 1 January 2006	20,619	704,540	88,875	814,034
Additions at cost	487	225,559	19,096	245,142
Acquisitions (note 32)	–	272,578	–	272,578
Disposals	(41)	(37,420)	(2,497)	(39,958)
Exchange adjustments	949	13,794	7,276	22,019
At 31 December 2006	22,014	1,179,051	112,750	1,313,815
Accumulated depreciation				
At 1 January 2006	2,131	418,066	52,309	472,506
Charge for year	525	41,951	14,919	57,395
Disposals	(2)	(27,470)	(1,138)	(28,610)
Exchange adjustments	154	2,248	6,150	8,552
At 31 December 2006	2,808	434,795	72,240	509,843
Net carrying amount				
At 31 December 2006	19,206	744,256	40,510	803,972

Group	Land and buildings – long leasehold and freehold $'000	Drilling rigs and equipment $'000	Plant, machinery and vehicles $'000	Total $'000
Cost				
At 1 January 2005	36,770	699,857	68,492	805,119
Additions at cost	2,186	86,831	13,217	102,234
Assets included within disposal group	–	–	(4,411)	(4,411)
Acquisitions	–	20,968	23,671	44,639
Disposals	(14,796)	(16,361)	(5,058)	(36,215)
Exchange adjustments	(3,541)	(86,755)	(7,036)	(97,332)
At 31 December 2005	20,619	704,540	88,875	814,034
Accumulated depreciation				
At 1 January 2005	4,026	451,050	50,709	505,785
Charge for year	514	34,076	11,448	46,038
Disposals	(2,023)	(15,598)	(2,141)	(19,762)
Assets included within disposal group	–	–	(2,734)	(2,734)
Exchange adjustments	(386)	(51,462)	(4,973)	(56,821)
At 31 December 2005	2,131	418,066	52,309	472,506
Net carrying amount				
At 31 December 2005	18,488	286,474	36,566	341,528

Included in property, plant and equipment at 31 December 2006 is an amount of $33,323,000 (2005: $26,749,000) in relation to assets in the course of construction.

12 Property, plant and equipment (continued)

As at 31 December 2006 cumulative capitalised interest of $265,000 (2005: $207,000) is included in the carrying value of land and buildings in Group and Company.

As at 31 December 2006 cumulative capitalised interest of $11,160,000 (2005: $2,362,000) is included in the carrying value of drilling rigs and equipment in the Group. For the year ended 31 December 2006 interest was capitalised at the rate of 6.6%.

Company	Land and buildings – long leasehold and freehold $'000	Drilling rigs and equipment $'000	Plant, machinery and vehicles $'000	Total $'000
Cost				
At 1 January 2006	6,555	37,709	4,424	48,688
Additions at cost	–	8,536	644	9,180
Exchange adjustments	916	5,647	210	6,773
At 31 December 2006	7,471	51,892	5,278	64,641
Accumulated depreciation				
At 1 January 2006	699	166	292	1,157
Charge for year	139	3,260	283	3,682
Exchange adjustments	142	312	90	544
At 31 December 2006	980	3,738	665	5,383
Net carrying amount				
At 31 December 2006	6,491	48,154	4,613	59,258

Company	Land and buildings – long leasehold and freehold $'000	Drilling rigs and equipment $'000	Plant, machinery and vehicles $'000	Total $'000
Cost				
At 1 January 2005	22,961	–	804	23,765
Additions at cost	–	39,921	3,922	43,843
Disposals	(14,796)	–	–	(14,796)
Exchange adjustments	(1,610)	(2,212)	(302)	(4,124)
At 31 December 2005	6,555	37,709	4,424	48,688
Accumulated depreciation				
At 1 January 2005	2,759	–	194	2,953
Charge for year	151	176	126	453
Disposals	(2,023)	–	–	(2,023)
Exchange adjustments	(188)	(10)	(28)	(226)
At 31 December 2005	699	166	292	1,157
Net carrying amount				
At 31 December 2005	5,856	37,543	4,132	47,531

13 Goodwill

Group	Total $'000
Cost and carrying amount	
At 1 January 2006	179,586
Additions (note 32)	378,200
Exchange adjustment	5,188
At 31 December 2006	562,974

Group	Total $'000
Cost and carrying amount	
At 1 January 2005	152,658
Additions	58,149
Attributable to a discontinued operation	(10,331)
Exchange adjustment	(20,890)
At 31 December 2005	179,586

The Group tests goodwill annually for impairment, or more frequently if there are any indications that goodwill may be impaired. Goodwill acquired through business contributions is allocated, at acquisition, to cash-generating units (CGU's), that are expected to benefit from that business combination.

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discounts rates, growth rates and expected changes to day rates and direct costs in the period. Management estimates discounts rates using post-tax rates that reflect current market assessments of the time value of money and risks specific to the CGU's. Growth rates and changes in day rates and direct costs are based on past experience and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by management for the next five years and extrapolates cash flows for the following years, due to the long-term nature of the relationships, based on an estimated real growth rate of 1.5%. This rate does not exceed the average long-term growth rate for the market.

The carrying amounts of goodwill by business segments are Drilling $559,208,000 (2005: $176,283,000), Engineering $3,766,000 (2005: $3,303,000). The post-tax rate used to discount the cash flows is 8.4%.

14 Intangible assets

Group	Customer relationships $'000	Other $'000	Total $'000
Cost			
At 1 January 2006	35,631	3,406	39,037
Additions at cost	–	12,302	12,302
Acquisitions (note 32)	36,734	–	36,734
Exchange adjustments	2,359	1,263	3,622
At 31 December 2006	74,724	16,971	91,695
Accumulated amortisation			
At 1 January 2006	2,908	2,899	5,807
Charge for the year	10,453	809	11,262
Exchange adjustments	257	116	373
At 31 December 2006	13,618	3,824	17,442
Net carrying amount			
At 31 December 2006	61,106	13,147	74,253

Group	Customer relationships $'000	Other $'000	Total $'000
Cost			
At 1 January 2005	8,661	3,662	12,323
Additions at cost	–	240	240
Acquisitions	28,944	–	28,944
Disposals	–	(15)	(15)
Exchange adjustments	(1,974)	(481)	(2,455)
At 31 December 2005	35,631	3,406	39,037
Accumulated amortisation			
At 1 January 2005	492	3,160	3,652
Charge for the year	2,364	174	2,538
Disposals	–	(14)	(14)
Exchange adjustments	52	(421)	(369)
At 31 December 2005	2,908	2,899	5,807
Net carrying amount			
At 31 December 2005	32,723	507	33,230

The Group used a discounted cash flow approach to calculate the fair value of customer relationships acquired. The fair values have been used as the acquisition cost for these assets.

The discounted cash flow calculation includes assumptions as to the duration of customer relationships and future net revenues. The resulting cash flows were discounted using a cost of capital rate of between 8.5% and 10.5%.

Other intangible assets represent capitalised software costs.

Amortisation of Other intangible assets is included in cost of sales in the income statement.

Company	Other $'000
Cost	
At 1 January 2006	–
Additions at cost	12,150
Exchange adjustments	1,113
At 31 December 2006	13,263
Accumulated amortisation	
At 1 January 2006	–
Charge for the year	325
Exchange adjustments	7
At 31 December 2006	332
Net carrying amount	
At 31 December 2006	12,931

15 Investments

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
a) Shares in Group undertakings				
At 1 January	**–**	–	**289,937**	81,698
Additions	**–**	–	**263,452**	238,458
Provision	**–**	–	**–**	(8,851)
Exchange adjustments	**–**	–	**55,185**	(21,368)
At 31 December	**–**	–	**608,574**	289,937
b) Loans to Group undertakings				
At 1 January	**–**	–	**106,334**	248,928
Decrease in loans to subsidiaries	**–**	–	**(106,334)**	(235,639)
Increase in loans to subsidiaries	**–**	–	**–**	112,572
Exchange adjustments	**–**	–	**–**	(19,527)
At 31 December	**–**	–	**–**	106,334
c) Other investments				
At 1 January	**527**	493	**258**	288
Acquisition of associate undertaking	**9,573**	209	**–**	–
Share of gain (loss) of associates	**273**	(117)	**–**	–
Exchange adjustments	**74**	(58)	**36**	(30)
At 31 December	**10,447**	527	**294**	258

Investments in Group undertakings are stated at cost. A list of principal subsidiary undertakings is given in note 39.

For the purposes of the Company Cash Flow Statement, inflows from Group lendings include movements on loans to Group undertakings and movements in short-term Group lendings included within trade and other receivables and trade and other payables.

Name	Country of incorporation	Assets $'000	Liabilities $'000	Revenues $'000	Profit $'000	% Interest held
Marlin Offshore International Limited	British Virgin Islands	113,195	15,934	10,356	3,000	10

Marlin Offshore International Limited was incorporated in September 2006 and the above figures relate to the three months unaudited financial statements. The results of this investment have been accounted for on an equity basis as under the shareholder agreement the Group has significant influence over the business.

16 Inventories

	Group	
	2006	2005
	$'000	$'000
Materials and consumables	**47,758**	38,882
Work in progress	**52,732**	34,325
	100,490	73,207

Engineering contracts

Contract revenue of $91,714,000 (2005: $40,277,000) has been recognised as revenue in the year.

The status of contracts in progress at the end of the year is as follows:

	Group	
	2006	2005
	$'000	$'000
Contract costs incurred and recognised profits (less recognised losses) to date	**65,410**	39,610
Gross amount due from customers for contract work presented as an asset	**680**	18,952
Gross amount due to customers for contract work presented as a liability	**(30,731)**	–

17 Trade and other receivables

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Trade receivables	**285,290**	166,900	**626**	–
Amounts owed by Group undertakings	**–**	–	**324,557**	209,347
Amounts owed by related parties (note 38)	**2,601**	156	**–**	–
Other receivables	**47,272**	45,124	**5,644**	4,431
Prepayments and accrued income	**10,598**	15,663	**–**	65
	345,761	227,843	**330,827**	213,843

18 Cash and cash equivalents

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Cash in hand and at banks	**31,872**	31,162	**52,475**	44,285
Short-term deposits	**13,360**	74,310	**–**	28,310
	45,232	105,472	**52,475**	72,595

Short-term deposits are made for varying periods and earn interest at the respective short-term deposit rates. At the year end, the Group's effective interest rate on short-term deposits held mainly in Euros was 3.6%. At the year end, those deposits had fixed periods of between 2 and 31 days.

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Cash in hand and at banks	**31,872**	31,162	**52,475**	44,285
Short-term deposits	**13,360**	74,310	**–**	28,310
Bank overdrafts	**–**	(7,785)	**–**	–
Net cash at banks and in hand and overdraft of disposal group held for sale	**–**	(3,900)	**–**	–
	45,232	93,787	**52,475**	72,595

19 Trade and other payables

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Trade payables	**71,051**	49,645	**18**	–
Amounts owed to Group undertakings	**–**	–	**147,877**	125,467
Other tax and social security payable	**42,953**	22,837	**–**	–
Other payables	**3,932**	44,851	**–**	179
Accruals	**125,326**	48,886	**10,001**	10,380
Payments received on account	**22,448**	39,862	**–**	–
Deferred income	**4,570**	12,031	**–**	–
	270,280	218,112	**157,896**	136,026

20 Financial liabilities – borrowings

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Current bank loans and overdrafts				
Secured	**(1,635)**	(1,394)	**–**	–
Unsecured	**(291,359)**	(129,553)	**(175,746)**	(121,766)
	(292,994)	(130,947)	**(175,746)**	(121,766)
Non-current bank loans				
Secured	**(42,272)**	(3,385)	**–**	–
Unsecured	**(624,233)**	(192,445)	**(136,284)**	(192,445)
	(666,505)	(195,830)	**(136,284)**	(192,445)

Bank loans and overdrafts are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents appropriate to the currency denomination of each borrowing. All bank loans and overdrafts bear interest at floating rates with the exception of:

a) a secured loan of $3,907,000 (2005: $4,779,000) which is denominated in Euros and bears interest at a fixed rate of 4.75% and is secured by a charge over the Group's freehold property in Germany.

b) a secured loan of $40,000,000 (2005: $nil) which is denominated in US dollars and bears interest at a fixed rate of 10.00%, and is secured by a priority mortgage on two jack-up rigs.

As part of the interest rate management strategy, the Group has entered into five interest rate swap contracts. Details of the interest rate swaps are included in note 22.

The average interest rates of the Group's borrowings at the balance sheet dates were as follows:

	2006	2005
	%	%
Bank overdraft	**n/a**	5.5
Bank borrowings	**6.6**	4.5

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
US dollar	**656,942**	98,816	**312,030**	100,500
Pound sterling	**198,271**	71,759	**–**	56,483
Euro	**3,907**	40,977	**–**	37,158
Norwegian kroner	**100,379**	115,225	**–**	120,070
	959,499	326,777	**312,030**	314,211

21 Other non-current liabilities

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Deferred income	**–**	3,741	**–**	–
Other payables	**756**	752	**–**	–
	756	4,493	**–**	–

22 Financial instruments

Financial risk factors
The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates and interest rates. The Group has in place a risk management policy that seeks to limit the adverse effects on the financial performance of the Group by using foreign currency financial instruments and other instruments to fix interest rates.

a) Foreign exchange risk
The Group is exposed to foreign exchange risks primarily with respect to the £ sterling, Euro and Norwegian kroner. The Group has entered into various forward exchange contracts to hedge the foreign currency exposure of its subsidiary companies. At 31 December 2006, the longest-dated contract has a maturity date in August 2007.

b) Interest rate risk
The Group is exposed to interest rate risk on its interest-bearing borrowings. The Group's policy is to maintain a significant percentage of its borrowings at fixed interest rates. This is, in part, achieved by using interest rate swaps to fix interest rate exposures on certain variable rate borrowings. At 31 December 2006, 46% (2005: 48%) of current and non-current bank loans were at secured rates after taking account of interest rate swaps.

c) Credit risk
Credit risk exposure primarily relates to receivables balances. The Group requires that appropriate credit checks are performed on potential customers before sales commence. The Group's customers are typically well established oil companies with solid credit ratings.

d) Liquidity risk
The Group actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure the Group has sufficient available funds for operations and planned expansions.

e) Price risk
The Group is not exposed to any significant price risk.

	Group		Company	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Contracts with positive fair values:				
Interest rate swaps	**1,699**	680	**–**	680
Forward foreign currency contracts	**45**	–	**6**	–
	1,744	680	**6**	680
Contracts with negative fair values:				
Interest rate swaps	**3,514**	–	**–**	–
Forward foreign currency contracts	**153**	620	**51**	–
	3,667	620	**51**	–

Interest rate swaps
At 31 December 2006, there were five outstanding interest rate swap contracts, against US dollar, £ sterling and Norwegian kroner borrowings, which all expire on 7 June 2011.

The notional principal amount of the interest rate swap contracts at 31 December 2006 was $446,048,000 (2005: $149,265,000). At 31 December 2006, the fixed interest rates were 5.54% (two US dollar contracts), 5.10% (£ sterling contract) and 4.44% (Norwegian kroner contract). (2005: US dollar contract at 4.72% and Norwegian kroner contract at 3.79%). In addition, there was a US dollar interest rate collar contract with a floor rate at 5.005% and a capped rate of 6.00%. The Group's hedged floating rate financial liabilities were at rates of 6.77% (USD LIBOR plus 135 basis points), 6.46% (GBP LIBOR plus 135 basis points) and 4.80% (NIBOR plus 135 basis points).

The interest rate swap contracts are effective hedges. The fair value gains and losses relating to the interest rate swaps and which are deferred in equity at 31 December 2006 will reverse in the income statement over the term of the swaps.

Fair values of non-derivative financial assets and financial liabilities
Where market values are not available, fair values of non-derivative financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year end exchange rates. The fair value of short-term borrowings approximate to carrying amounts.

22 Financial instruments (continued)

	Group			
	2006		2005	
	Book value	**Fair value**	Book value	Fair value
Fair value of non-current borrowings	**$'000**	**$'000**	$'000	$'000
Long-term borrowings	**666,505**	**670,913**	195,830	195,830
Fair value of other non derivative financial assets and financial liabilities held or issued to finance the Group's operations:				
Trade and other receivables (note 17)	**345,761**	**345,761**	227,843	227,843
Cash at bank and in hand (note 18)	**31,872**	**31,872**	31,162	31,162
Short-term deposits (note 18)	**13,360**	**13,360**	74,310	74,310
Trade and other payables (note 19)	**270,280**	**270,280**	218,112	218,112
Current borrowings (note 20)	**292,994**	**292,994**	130,947	130,947
Other non-current liabilities (note 21)	**756**	**756**	4,493	4,493

The fair value of floating rate borrowings approximate to the book value. The fair value of fixed rate borrowings are valued using market rates.

	Company			
	2006		2005	
	Book value	**Fair value**	Book value	Fair value
	$'000	**$'000**	$'000	$'000
Long-term borrowings	**136,284**	**136,284**	192,445	192,445

Maturity of financial liabilities
The maturity profile of the carrying amount of non-current liabilities at 31 December was as follows:

Group	**Borrowings $'000**	**Other non-current liabilities $'000**	**2006 Total $'000**	Borrowings $'000	Other non-current liabilities $'000	2005 Total $'000
In more than one year but not more than two years	**86,582**	**–**	**86,582**	12,352	3,741	16,093
In more than two years but not more than five years	**579,923**	**–**	**579,923**	183,478	–	183,478
In more than five years	**–**	**756**	**756**	–	752	752
	666,505	**756**	**667,261**	195,830	4,493	200,323

Company	**2006 Borrowings $'000**	2005 Borrowings $'000
In more than one year but not more than two years	**–**	11,000
In more than two years but not more than five years	**136,284**	181,445
	136,284	192,445

Borrowing facilities
The Group has the following undrawn committed borrowing facilities available at 31 December:

	2006 Total $'000	2005 Total $'000
Expiring within one year	**10,000**	39,200
Expiry between one and two years	**28,572**	–
Expiring in more than two years but not more than five years	**104,100**	–
	142,672	39,200

All undrawn borrowing facilities are floating rate facilities.

The facilities have been arranged to help finance the Group's activities. All these facilities incur commitment fees at market rate.

In addition to the undrawn committed borrowing facilities, amounts totalling $13,360,000 (2005: $74,310,000) were held in short-term cash deposits outwith the borrowing facilities over the year end.

23 Provisions

Group	Warranty provision $'000	Other $'000	Total $'000
At 1 January 2006	**5,010**	**3,212**	**8,222**
Arising during the year	**4,411**	**–**	**4,411**
Utilised	**(634)**	**–**	**(634)**
Unused amounts reversed	**(398)**	**(3,212)**	**(3,610)**
Exchange adjustments	**773**	**–**	**773**
At 31 December 2006	**9,162**	**–**	**9,162**

Provisions have been analysed between current and non-current as follows:

	2006 $'000	2005 $'000
Current	**2,656**	3,614
Non-current	**6,506**	4,608
	9,162	8,222

Warranty provisions are recognised in respect of guarantees provided in the normal course of business relating to equipment supplied, which are normally for a period of less than two years. A discount has not been applied as it is deemed to be immaterial.

24 Deferred tax

Deferred tax is calculated on temporary differences under the liability method using the tax rate applicable to the territory in which the asset or liability has arisen.

The movement on deferred tax account is shown below:

	Group		Company	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
At 1 January	**(3,734)**	–	**–**	874
Acquisitions	**15,000**	(4,304)	**–**	–
(Credit) charge to income statement	**(5,230)**	125	**–**	(874)
Exchange differences	**(531)**	445	**–**	–
At 31 December	**5,505**	(3,734)	**–**	–

The deferred tax account is presented in the financial statements as follows:

	Group		Company	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Deferred tax assets	**(3,749)**	(4,929)	**–**	–
Deferred tax liabilities	**9,254**	1,195	**–**	–
	5,505	(3,734)	**–**	–

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is no intention to settle the balances net. Deferred tax comprises:

	Group		Company	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Arising on property, plant and equipment	**15,549**	1,219	**–**	–
Other	**(10,044)**	(4,953)	**–**	–
	5,505	(3,734)	**–**	–

The Group has not recognised potential deferred tax assets of US$6.8m (2005: US$9.4m) on the tax effect of deductible temporary differences, unused tax losses and unused tax credits as they have arisen in companies in which it may not be possible to utilise the potential benefit in future years.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures. As these earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. If the earnings were remitted, tax of US$7m (2005: US$6m) would be payable.

25 Share capital

Authorised	Group and Company 2006 $'000	2005 $'000
306,666,666 ordinary shares of 15p each (2005: 246,000,000)	**85,100**	68,265

Issued and fully paid	2006 Shares	2006 $'000	2005 Shares	2005 $'000
Ordinary shares of 15p each				
At 1 January	**184,627,746**	**53,004**	175,836,246	50,640
Issue of shares	**47,743,925**	**13,284**	8,791,500	2,364
At 31 December	**232,371,671**	**66,288**	184,627,746	53,004

There are no outstanding options, and no options lapsed in either 2006 or 2005.

During the year 47,743,925 shares of nominal value 15p were issued at a premium of 282.5p as part of the consideration for the acquisition of Songa Drilling AS.

By a Special Resolution approved at an extraordinary general meeting of the Company held on 24 May 2006, the authorised share capital of the Company was increased from £36,900,000 to £46,000,000 ($85,100,000) by the creation of 60,666,666 new ordinary shares of 15p each.

The nominal value of shares is stated in £ sterling as this is the functional currency of the Company.

26 Share premium account

	Group and Company 2006 $'000	2005 $'000
At 1 January	**206,531**	173,036
Premium on shares issued during the year net of expenses	**250,088**	33,495
At 31 December	**456,619**	206,531

Expenses on share issue in 2006 amounted to $81,314 (2005: $390,762).

27 Retained earnings

	Group $'000	Company $'000
At 1 January 2006	**52,785**	**48,848**
Profit (loss) for the year	**31,155**	**(9,813)**
Dividends paid	**(19,531)**	**(19,531)**
Dividends received	**–**	**27,518**
Actuarial gains on defined benefit pension schemes	**1,205**	**867**
Movement in respect of employee share awards accrual	**5,212**	**1,443**
Consideration paid in respect of purchase of own shares held in an ESOP trust	**(1,383)**	**–**
Consideration received in respect of sale of own shares held in an ESOP trust	**877**	**–**
At 31 December 2006	**70,320**	**49,332**

	Group $'000	Company $'000
At 1 January 2005	65,265	78,359
Profit (loss) for the year	16,071	(18,896)
Dividends paid	(15,887)	(15,887)
Dividends received	–	6,361
Actuarial (losses) on defined benefit pension schemes	(4,338)	(438)
Movement in respect of employee share awards accrual	(427)	(651)
Consideration paid in respect of purchase of own shares held in an ESOP trust	(8,306)	–
Consideration received in respect of sale of own shares held in an ESOP trust	407	–
At 31 December 2005	52,785	48,848

28 Minority interest

	Group 2006 $'000	Group 2005 $'000
At 1 January	**(1,416)**	(27)
Share of loss for the year	**(476)**	(1,446)
Disposal of minority interest in Spear Technologies Inc.	**3,457**	–
Exchange adjustments	**–**	57
At 31 December	**1,565**	(1,416)

29 Other reserves

Company	Hedging reserves $'000	Currency translation reserve $'000	Total $'000
At 1 January 2005	(405)	19	(386)
Cash flow hedges			
fair value losses in year	716	–	716
transfers to net profit	369	–	369
Exchange adjustments	–	(31,864)	(31,864)
At 31 December 2005	680	(31,845)	(31,165)
At 1 January 2006	680	(31,845)	(31,165)
Cash flow hedges			
fair value losses in year	(680)	–	(680)
Exchange adjustments	–	50,865	50,865
At 31 December 2006	–	19,020	19,020

30 Statement of changes in shareholders' equity

	Attributable to equity holders of the Company							
Group	Share capital $'000 (note 25)	Share premium $'000 (note 26)	Retained earnings $'000 (note 27)	Hedging reserves $'000	Currency translation reserve $'000	Total $'000	Minority interests $'000 (note 28)	Total equity $'000
At 1 January 2005	50,640	173,036	65,265	2,102	897	291,940	(27)	291,913
Net movement on cash flow hedges	–	–	–	(2,043)	–	(2,043)	–	(2,043)
Foreign currency translation	–	–	–	–	(37,032)	(37,032)	57	(36,975)
Profit for the year	–	–	16,071	–	–	16,071	(1,446)	14,625
Issue of share capital	2,364	33,495	–	–	–	35,859	–	35,859
Actuarial gain (loss)	–	–	(4,338)	–	–	(4,338)	–	(4,338)
Employee share schemes	–	–	(8,326)	–	–	(8,326)	–	(8,326)
Equity dividends (note 10)	–	–	(15,887)	–	–	(15,887)	–	(15,887)
At 31 December 2005	53,004	206,531	52,785	59	(36,135)	276,244	(1,416)	274,828
At 1 January 2006	53,004	206,531	52,785	59	(36,135)	276,244	(1,416)	274,828
Net movement on cash flow hedges	–	–	–	(1,939)	–	(1,939)	–	(1,939)
Foreign currency translation	–	–	–	–	(11,069)	(11,069)	–	(11,069)
Profit for the year	–	–	31,155	–	–	31,155	(476)	30,679
Disposal of minority interest	–	–	–	–	–	–	3,457	3,457
Issue of share capital	13,284	250,088	–	–	–	263,372	–	263,372
Actuarial gain on defined benefit plans	–	–	1,205	–	–	1,205	–	1,205
Employee share schemes	–	–	4,706	–	–	4,706	–	4,706
Equity dividends (note 10)	–	–	(19,531)	–	–	(19,531)	–	(19,531)
At 31 December 2006	66,288	456,619	70,320	(1,880)	(47,204)	544,143	1,565	545,708

The retained earnings reserve is distributable.

31 Analysis of net debt

	2006 $'000	2005 $'000
Cash in hand and at bank (including short-term deposits)	**45,232**	105,472
Bank overdrafts (with no right of offset)	**–**	(7,785)
Net cash at banks and in hand of disposal group held for sale	**–**	(3,900)
	45,232	93,787
Debt due after one year (note 20)	**(666,505)**	(195,830)
Debt due within one year (note 20)	**(292,994)**	(123,162)
At 31 December	**(914,267)**	(225,205)

32 Business Combinations

Acquisitions

On 8 June 2006, the Group acquired 100% of the voting shares of Songa Drilling AS. Songa Drilling AS owns three jack-up rigs all of which were under refurbishment or repair at the date of acquisition.

The book value and the provisional fair value of the assets and liabilities as at the date of acquisition were:

	Book value $'000	Fair value adjustments $'000	Provisional fair value $'000
Property, plant and equipment	222,578	50,000	272,578
Intangible fixed assets	–	36,734	36,734
Trade and other receivables	589	–	589
Cash and cash equivalents	49,402	–	49,402
Trade and other payables	(28,704)	–	(28,704)
Borrowings	(177,183)	(3,725)	(180,908)
Deferred tax liabilities	(489)	(15,000)	(15,489)
Net assets acquired	66,193	68,009	134,202
Goodwill			378,200
Consideration			512,402
Consideration satisfied by:			
Cash			241,688
Issue of shares			263,372
Direct costs relating to the acquisition			7,342
			512,402

The purchase has been accounted for as an acquisition. All intangible assets were recognised at their fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements. The goodwill is attributable to the strong demand for jack-up rigs which is having a positive impact on the future revenue generation potential.

When the Group completes the refurbishment and repair of the two remaining jack-up rigs this may give rise to subsequent fair value adjustments.

47,743,925 shares in Abbot Group plc were issued as part of this acquisition. The closing share price at 7 June 2006 of 297.5p at an exchange rate of $1.855 = £1 (rounded) has been used to value this instrument.

The outflow of cash and cash equivalents on the acquisition of Songa Drilling AS is analysed as follows:

	$'000
Cash consideration	241,688
Direct costs relating to the acquisition	7,342
Cash acquired	(49,402)
	199,628

From the date of acquisition Songa Drilling AS contributed operating profits of $8,244,000 representing approximately three and a half months operation of one rig from commencement of operations in mid-September to year end. In the period prior to acquisition the Company did not earn any income and losses were immaterial. Therefore annualised information on Songa Drilling AS revenues and profit and loss is not presented in these accounts.

Disposals

In April 2006, the Group sold its shareholding in Spear Technologies Inc. for $3.0 million. The trading for the period to disposal and loss on sale of business totalling $3.4 million is classified as a discontinued operation in the Consolidated Income Statement.

33 Employees and directors

Employee benefit expense for the Group during the year:

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Wages and salaries	**329,884**	225,697	**3,989**	4,320
Social security costs	**43,494**	25,745	**453**	465
Other pension costs	**17,845**	11,899	**732**	383
	391,223	263,341	**5,174**	5,168

Average monthly number of people (including executive directors) employed:

	Group		Company	
	2006	2005	**2006**	2005
	Number	Number	**Number**	Number
Drilling	**5,575**	3,910	**–**	–
Corporate and other	**802**	849	**13**	14
	6,377	4,759	**13**	14

	2006	2005
Key management compensation	**$'000**	$'000
Salaries and short-term employee benefits	**7,474**	4,411
Post-employment benefits	**506**	342
Share-based payments (equity settled)	**(541)**	(436)
Share-based payments (cash settled)	**579**	264
	8,018	4,581

The key management figures given above include executive directors.

	2006	2005
Directors	**$'000**	$'000
Aggregate emoluments, including money purchase contributions	**3,959**	2,570
Aggregate gains made on vesting of shares	**2,464**	445
Company contributions to defined contribution pension schemes	**230**	138
	6,653	3,153

1 director (2005: 1) has retirement benefits accruing under money purchase pension schemes. In addition, retirement benefits are accruing to 4 (2005: 4) directors under Group defined benefit pension schemes. Further details of directors' emoluments are provided in the Directors' Remuneration Report.

34 Retirement benefit obligations

The Group operates a number of pension schemes in various countries. In respect of defined benefit schemes, the Group operates two funded schemes in the UK, whilst in Germany and Norway the particular schemes are unfunded in line with local practice in those countries.

a) UK schemes

The Group operates two funded defined benefit schemes in the UK as follows:

i) The KCA Drilling defined benefit scheme has been closed to new members for a number of years with existing members continuing to accrue benefits based on their current salary and number of years service with the Group. At 31 December 2006 there were 28 active members and 78 deferred members and pensioners.

The most recent actuarial valuation of the scheme was carried out at 31 December 2006 by the Group's pension advisers and the principal assumptions made by the actuaries were:

	2006	2005
	%	%
Rate of increases in pensionable salaries	**4.2**	4.0
Rate of increases in pensions in payment and deferred pensions	**3.0**	2.8
Discount rate	**5.1**	4.9
Inflation assumption	**2.8**	2.8
Expected return on plan assets	**5.4**	6.0

The expected return on plan assets is based on market expectation at the beginning of the year for returns over the entire life of the benefit obligation.

The amounts recognised in the balance sheet are determined as follows:

	2006	2005
	$'000	$'000
Present value of funded obligations	**(43,648)**	(35,301)
Fair value of scheme assets	**38,238**	27,836
Net liability	**(5,410)**	(7,465)

The major categories of the scheme's assets as a percentage of total scheme assets are as follows:

	2006	2005
	%	%
Equity securities	**76**	76
UK corporate bonds	**24**	24
Total	**100**	100

The amounts recognised in the consolidated income statement are as follows:

	2006	2005
	$'000	$'000
Current service cost	**1,351**	912
Interest cost	**1,884**	1,754
Expected return on scheme assets	**(1,652)**	(1,363)
Total included within administrative expenses	**1,583**	1,303

34 Retirement benefit obligations (continued)

a) UK schemes (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2006 **$'000**	2005 $'000
Present value of obligations, 1 January	**35,301**	33,936
Service cost	**1,351**	912
Interest cost	**1,884**	1,754
Actuarial losses	**192**	2,768
Member contributions	**365**	269
Benefits paid	**(580)**	(456)
Exchange differences	**5,135**	(3,882)
Present value of obligations, 31 December	**43,648**	35,301

Changes in the fair value of plan assets are as follows:

	2006 **$'000**	2005 $'000
Fair value of plan assets, 1 January	**27,836**	23,485
Expected return on plan assets	**1,652**	1,363
Contributions	**3,782**	3,362
Benefits paid	**(580)**	(456)
Actuarial gains	**1,343**	2,968
Exchange differences	**4,205**	(2,886)
Fair value of plan assets, 31 December	**38,238**	27,836

The actual return on assets was $2,995,000 (2005: $4,331,000).

Analysis of the movement in the balance sheet liability:

	2006 **$'000**	2005 $'000
At 1 January	**7,465**	10,451
Total expense as above	**1,583**	1,303
Contributions	**(3,417)**	(3,093)
Net actuarial gains recognised in the year	**(1,151)**	(200)
Exchange differences	**930**	(996)
At 31 December	**5,410**	7,465

History of experience gains and losses:

	2006	2005	2004	2003
Difference between actual return and expected return on scheme assets:				
Amount ($'000)	**1,343**	2,968	442	1,599
Percentage of scheme assets	**4%**	10%	2%	8%
Experience (losses) arising on scheme liabilities:				
Amount ($'000)	**(192)**	(2,768)	(756)	(50)
Percentage of the present value of the scheme liabilities	**1%**	9%	3%	0%
Present value of scheme liabilities ($'000)	**(43,648)**	(35,301)	(33,936)	(28,604)
Fair value of scheme assets ($'000)	**38,238**	27,836	23,485	19,471
Deficit ($'000)	**(5,410)**	(7,465)	(10,451)	(9,133)

The contribution expected to be paid during the financial year ended 31 December 2007 amounts to approximately $3,400,000.

34 Retirement benefit obligations (continued)

a) UK schemes (continued)

ii) The OIS Teesside Ltd defined benefit scheme is closed and the Group is responsible for the ongoing funding of the scheme.

At 31 December 2006 there were 21 deferred members and pensioners.

The most recent actuarial valuation of the scheme was carried out at 31 December 2006 by the Group's pension advisers and the principal assumptions made by the actuaries were:

	2006 %	2005 %
Rate of increase in pensions in payment and deferred pensions	**3.0**	2.8
Discount rate	**5.1**	4.9
Inflation assumption	**2.8**	2.8
Expected return on plan assets	**6.1**	6.8

The expected return on plan assets is based on market expectation at the beginning of the year for returns over the entire life of the benefit obligation.

The amounts recognised in the balance sheet are determined as follows:

	2006 $'000	2005 $'000
Present value of funded obligations	**(9,324)**	(8,594)
Fair value of plan assets	**6,195**	4,871
Net liability	**(3,129)**	(3,723)

The major categories of the scheme's assets as a percentage of total scheme assets are as follows:

	2006 %	2005 %
Equity securities	**80**	85
UK corporate bonds	**20**	15
Total	**100**	100

The amounts recognised in the consolidated income statement are as follows:

	2006 $'000	2005 $'000
Interest cost	**446**	414
Expected return on plan assets	**(313)**	(267)
Total included within administrative expenses	**133**	147

Changes in the present value of the defined benefit obligation are as follows:

	2006 $'000	2005 $'000
Present value of obligations, 1 January	**8,594**	8,227
Interest cost	**446**	414
Actuarial (gains) losses	**(701)**	1,116
Benefits paid	**(234)**	(220)
Exchange difference	**1,219**	(943)
Present value of obligations, 31 December	**9,324**	8,594

Changes in the fair value of plan assets are as follows:

	2006 $'000	2005 $'000
Fair value of plan assets, 1 January	**4,871**	4,297
Expected return on plan assets	**313**	267
Contributions	**368**	363
Benefits paid	**(234)**	(220)
Actuarial gains	**166**	678
Exchange difference	**711**	(514)
Fair value of plan assets, 31 December	**6,195**	4,871

The actual return on assets was $479,000 (2005: $945,000).

34 Retirement benefit obligations (continued)

a) UK schemes (continued)

Analysis of the movement in the balance sheet liability:

	2006 $'000	2005 $'000
1 January	**3,723**	3,930
Total expense as above	**133**	147
Contributions	**(368)**	(363)
Net actuarial (gains) losses recognised in the year	**(867)**	438
Exchange difference	**508**	(429)
At 31 December	**3,129**	3,723

History of experience gains and losses:

	2006	2005	2004	2003
Difference between actual return and expected return on scheme assets:				
Amount ($'000)	**166**	678	52	276
Percentage of scheme assets	**3%**	17%	1%	8%
Experience gains (losses) arising on scheme liabilities:				
Amount ($'000)	**701**	(1,116)	(209)	(743)
Percentage of the present value of the scheme liabilities	**8%**	14%	3%	10%
Present value of scheme liabilities ($'000)	**(9,324)**	(8,594)	(8,227)	(7,343)
Fair value of scheme assets ($'000)	**6,195**	4,871	4,297	3,634
Deficit ($'000)	**(3,129)**	(3,723)	(3,930)	(3,709)

The contribution expected to be paid during the financial year ended 31 December 2006 amounts to approximately $390,000.

b) Germany schemes

The Group operates four defined benefit schemes in Germany. The schemes are unfunded in common with local practice and the total liabilities of the schemes are included as a balance sheet provision.

The schemes have been closed to new members for a number of years with existing members continuing to accrue benefits based on their current salary levels and number of years service with the Group.

At 31 December 2006 there were a total of 449 active members and 1,231 deferred members and pensioners.

The most recent actuarial valuation of the scheme was carried out at 31 December 2006 by the Group's pension advisers and the principal assumptions made by the actuaries were:

	2006 %	2005 %
Rate of increase in pensionable salaries	**2.50**	2.50
Rate of increase in pensions in payment and deferred pensions	**1.50**	1.50
Discount rate	**4.00**	4.00
Inflation assumption	**1.50**	1.50

The amount recognised in the balance sheet is:

	2006 $'000	2005 $'000
Present value of unfunded obligations	**92,072**	82,982

The amounts recognised in the consolidated income statement are as follows:

	2006 $'000	2005 $'000
Current service cost	**1,161**	974
Interest cost	**3,476**	3,640
Total included within administration expenses	**4,637**	4,614

34 Retirement benefit obligations (continued)

b) Germany schemes (continued)

Changes in the present value of the defined benefit obligations as included in the balance sheet are as follows:

	2006 $'000	2005 $'000
Present value of obligations, 1 January	**82,982**	88,790
Service cost	**1,161**	974
Interest cost	**3,476**	3,640
Actuarial (gains) losses	**(2,642)**	4,258
Benefits paid	**(2,797)**	(2,626)
Exchange differences	**9,892**	(12,054)
Present value of obligations, 31 December	**92,072**	82,982

History of experience gains and losses:

	2006	2005	2004	2003
Experience adjustments arising on scheme liabilities:				
Amount ($'000)	**2,642**	(4,258)	(5,341)	3,306
Percentage of the present value of the scheme liabilities	**3%**	6%	1%	4%
Present value of scheme liabilities ($'000)	**92,072**	82,982	88,790	74,991

c) Norway schemes

With the acquisition of Prosafe Drilling Services in Norway in August 2005, the Group "inherited" three unfunded benefit schemes relating to early retirement of employees between the ages of 62 and 67.

Prosafe Drilling Services principal defined benefit scheme, relating to retirement from the age of 67, was completely closed at 31 December 2005 with the former owners of Prosafe Drilling Services being responsible for the full funding of all liabilities as at 31 December 2005.

In relation to the early retirement schemes an actuarial valuation of the schemes were carried out at 31 December 2006 by the Group's pension advisers and the principal assumptions made by the actuaries were:

	2006 %	2005 %
Rate of increase in salaries	**3.75**	3.00
Rate of increase in pensions in payment	**2.50**	2.50
Discount rate	**4.45**	4.34
Inflation assumption	**2.25**	3.00

The amount recognised in the balance sheet is:

	2006 $'000	2005 $'000
Present value of unfunded obligations	**19,263**	12,641

The amounts recognised in the consolidated income statement are as follows:

	2006 $'000	2005 $'000
Current service cost	**1,396**	488
Interest cost	**641**	244
Total included within administration expenses	**2,037**	732

34 Retirement benefit obligations (continued)

c) Norway schemes (continued)

Changes in the present value of the defined benefit obligations as included in the balance sheet are as follows:

	2006 $'000
Present value of obligations, 1 January	12,641
Service cost	1,396
Interest cost	641
Actuarial losses	3,455
Exchange differences	1,130
Present value of obligations, 31 December	19,263

History of experience gains and losses:

	2006 $'000
Experience adjustments arising on scheme liabilities:	
Amount ($'000)	(3,455)
Percentage of the present value of the scheme liabilities	18%
Present value of scheme liabilities ($'000)	19,264

d) Total

The total provision in the consolidated balance relating to pension liabilities is analysed as follows:

	2006 $'000	2005 $'000
UK schemes		
– KCA	5,410	7,465
– OIS	3,129	3,723
Germany schemes	92,072	82,982
Norway schemes	19,263	12,641
Others	–	77
At 31 December	119,874	106,888

Cumulative actuarial gains and losses recognised in equity are as follows:

	2006 $'000	2005 $'000
1 January	26,316	22,218
Net actuarial (gains) losses recognised in the year	(1,205)	4,338
Exchange differences	3,687	(240)
At 31 December	28,798	26,316

35 Contingent liabilities

Bank loans, overdrafts and guarantee facilities available to the Group are secured inter alia by a cross guarantee from the Company.

36 Operating lease commitments – minimum lease payments

	Property		Other	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Commitments under non-cancellable operating leases expiring:				
Within one year	4,352	3,106	6,480	427
Later than one year and less than five years	7,193	6,278	22,488	838
After five years	5,361	6,168	–	–
	16,906	15,552	28,968	1,265

The Group leases various properties and yards under non-cancellable operating lease agreements. The terms of each lease agreement are specific to each particular property and yard. The material lease agreements range from within one year to ten years.

The Group also leases drilling rigs, plant and equipment, and vehicles under non-cancellable operating lease agreements included under Other above.

37 Capital and other financial commitments

	2006 $'000	2005 $'000
Contracts placed for future capital not provided in the financial statements	**53,864**	13,212

38 Related party transactions

The following balances relate to transactions carried out with Group's associates:

Group	**2006 $'000**	2005 $'000
Receivables from associates	**2,601**	156
Revenues from associates	**2,601**	156

Key management compensation is disclosed in note 33.

The following balances relate to transactions carried out with Group undertakings:

Company	**2006 $'000**	2005 $'000
Loans to Group undertakings (note 15)	**–**	106,334
Amounts owed by Group undertakings	**324,557**	209,347
Amounts owed to Group undertakings	**147,877**	125,467
Receivables from associates	**445**	–

On 8 June 2006 the Company acquired 142,038,177 ordinary shares of £1 each in a subsidiary undertaking.

Net finance income of $11,192,000 (2005: $10,065,000) was received from Group undertakings.

39 Principal subsidiary undertakings

Abbot Group plc is a public limited company incorporated in England and Wales, and domiciled in Scotland.

The Group's principal subsidiaries are as follows:

			% of ordinary shares or equity interest held by:	
Principal subsidiary undertakings	Country of incorporation	Principal activity	Company %	Subsidiaries %
KCA DEUTAG Drilling Limited	Great Britain	Drilling services	–	100
KCA DEUTAG Caspian Limited	Great Britain	Drilling services	–	100
KCA DEUTAG Tiefbohrgesellschaft mbH	Germany	Drilling services	–	100
KCA DEUTAG Drilling GmbH	Germany	Drilling services	–	100
Bentec GmbH Drilling & Oilfield Systems	Germany	Design engineering, fabrication of drilling rigs	–	100
Oman KCA DEUTAG Drilling Company LLC	Oman	Drilling services	–	*60
KCA DEUTAG (Nigeria) Limited	Nigeria	Drilling	–	*60
KCA DEUTAG Drilling Inc	USA	Design engineering, fabrication of drilling rigs	–	100
ILI Corporation	Cayman Islands	Drilling services	–	100
KCA DEUTAG Drilling Norge AS	Norway	Drilling services	–	100
KCA DEUTAG Offshore AS**	Norway	Drilling services	–	100
KCA DEUTAG PTE Limited	Singapore	Drilling services	–	100

*By virtue of shareholder agreements, 100% of the results of these entities are for the account of the Group.
**Formerly known as Songa Drilling AS.

Independent Auditor's Report to the Members of Abbot Group plc

We have audited the Group and parent Company financial statements (the ''financial statements") of Abbot Group plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and parent Company Balance Sheets, the Group and parent Company Cash Flow Statements, the Group and parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's Corporate Governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;

- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2006 and cash flows for the year then ended;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Aberdeen
2 April 2007

Consolidated Income Statement
Five Year Summary

	2006 $'000	2005 $'000	2004 $'000	2003 $'000	2002 $'000
Continuing operations					
Revenue	**1,162,890**	684,958	657,817	655,937	660,153
Cost of sales	**(1,002,089)**	(566,188)	(548,052)	(552,051)	(559,104)
Gross profit	**160,801**	118,770	109,765	103,886	101,049
Administrative expenses	**(64,117)**	(62,787)	(54,588)	(56,413)	(59,242)
Impairment of goodwill	**–**	–	(978)	(8,234)	(6,232)
Amortisation of intangible fixed assets	**(10,453)**	(2,364)	(476)	–	–
Operating profit	**86,231**	53,619	53,723	39,239	35,575
Finance costs	**(34,271)**	(7,197)	(3,869)	(5,914)	(18,020)
Finance income	**3,152**	1,548	1,492	706	1,187
Share of results of associates	**273**	(117)	(449)	170	304
Net profit (loss) on sale of operations	**–**	–	–	(495)	54,715
Profit before taxation	**55,385**	47,853	50,897	33,706	73,761
Analysed as:					
Profit before taxation before exceptional items	**55,385**	45,936	50,897	41,553	77,595
Exceptional items	**–**	1,917	–	(7,847)	(3,834)
Taxation	**(21,350)**	(16,685)	(14,556)	(13,504)	(7,471)
Profit for the year from continuing operations	**34,035**	31,168	36,341	20,202	66,290
Discontinued operation					
Loss for the year from a discontinued operation	**(3,356)**	(16,543)	(3,010)	–	–
Profit for the year	**30,679**	14,625	33,331	20,202	66,290
Attributable to:					
Equity holders of the Company	**31,155**	16,071	34,536	19,005	66,822
Minority interest	**(476)**	(1,446)	(1,205)	1,197	(532)
	30,679	14,625	33,331	20,202	66,290
Earnings per share:					
Basic	**16.3**	17.5	20.7	10.8	38.1
Adjusted, basic	**21.3**	18.3	22.0	19.3	14.2
Dividend per ordinary share	**10.1**	9.1	8.8	7.4	6.0

The figures presented above for 2004 to 2006 are prepared in accordance with IFRS. The figures presented for 2002 and 2003 are prepared in accordance with UK GAAP.

Notice is hereby given that the Annual General Meeting of Abbot Group plc (the "Company") will be held at the offices of Tavistock Communications Limited, 131 Finsbury Pavement, London EC2A 1NT on 23 May 2007 at 11.00am for the following purposes:

1. To receive and adopt the Directors' Report and Accounts and the Auditors' Report for the year ended 31 December 2006.

2. To declare a final dividend of 3.65p per ordinary share for the year ended 31 December 2006 payable to eligible ordinary shareholders on the register of members at the close of business on 4 May 2007.

3. To re-appoint as a director Alasdair J.D. Locke who has offered himself for re-appointment in accordance with Article 97 of the Articles of Association of the Company.

4. To re-appoint as a director Robert A. Duncan who has offered himself for re-appointment in accordance with Article 97 of the Articles of Association of the Company.

5. To re-appoint as a director Peter J. Milne who has offered himself for re-appointment in accordance with Article 97 of the Articles of Association of the Company.

6. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company to hold office until the conclusion of the next General Meeting at which accounts are laid.

7. To authorise the directors to determine the remuneration of the Auditors.

Special Business
As Special Business, to consider and if thought fit, pass the following resolutions of which resolutions 8 to 10 will be proposed as ordinary resolutions and resolutions 11 and 12 will be proposed as special resolutions:

Ordinary Resolutions

8. To approve the Directors' Remuneration Report as set out on pages 36 to 40 of the Directors' Report and Accounts.

9. That the rule 2.2 of The Abbot Group Annual Share Bonus Plan be and is hereby amended by increasing the limit to the percentage of basis annual salary that may be awarded as bonus for the purpose of that Plan, from 75 to 100 per cent with effect from 1 January 2007.

10. That, in substitution for any previous authority, the directors be and they are hereby generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to exercise all powers of the Company to allot relevant securities (as defined in that section) up to a maximum aggregate nominal amount of relevant securities of £11,144,249, being 31.97 per cent of the issued share capital of the Company as at 16 March 2007, to expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date fifteen months after the passing of this resolution, but the Company may before this authority expires make an offer or agreement which would or might require relevant securities to be allotted after this authority expires, and the Company may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

11. That, the directors be and they are hereby generally empowered pursuant to Section 95 of the Act.

    11.1 subject to resolution 10 above being passed, to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company for cash pursuant to the authority conferred by resolution 10; and

    11.2 to allot equity securities within the meaning of Section 94(3A) of the Act, in either case as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited:

    (i) to allotments of equity securities where such securities have been offered (whether by way of a rights issue open offer or otherwise) to holders of ordinary shares of the Company and, if in accordance with their rights as the directors so determine, holders of other equity securities of any class made in proportion (as nearly as may be) to their existing holdings of ordinary shares (as the case may be) and other equity securities of the class concerned (so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer and, failing which, shall be on the basis that their holdings had been converted into or that they had subscribed for ordinary shares on the basis then applicable) but subject in either case to the directors having a right to make such exclusions or other arrangements in connection with such offering as they deem necessary or expedient:

    (a) to sell, for the benefit of those shareholders who are citizens of or resident in any overseas territory where in the opinion of the directors it would at the time of the offer be illegal (by relevant law) or unduly costly or burdensome for the Company to make or for those shareholders to accept an offer of equity securities of the Company, the equity securities to which they would otherwise be entitled, save that the proceeds (net of expenses) of £3 or less due to any such shareholders may be retained for the benefit of the Company; and

    (b) to aggregate and sell for the benefit of the Company all fractions of a share which may arise in apportioning the equity securities among the original shareholders; and

    (ii) to allotments (otherwise than pursuant to sub-paragraph (i) above) of equity securities having in the case of relevant shares (as defined in Section 94 of the Act) a nominal amount, or in the case of other securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £1,742,787.

    and this power shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date fifteen months after the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

12. That, in accordance with Article 50 of the Articles of Association of the Company and Chapter VII of Part V of the Act and subject to the following provisions of this resolution, the Company be and is hereby generally and unconditionally authorised (pursuant to Section 166 of the Act) to make market purchases (within the meaning of Section 163(3) of the Act) of any of its own ordinary shares of 15p each on such terms and in such manner as the directors of the Company may from time to time determine provided that:

    (i) the maximum number of ordinary shares of 15p each authorised to be acquired is 23,237,167 (representing just under 10 per cent of the Company's issued ordinary capital as at 16 March 2007);

    (ii) the minimum price which may be paid for each ordinary share is 15p (exclusive of expenses);

(iii) unless a tender or partial offer is made to all holders of the ordinary shares on the same terms, the maximum price (exclusive of expenses) which may be paid for each ordinary share is, in respect of a share contracted to be purchased on any day, to be not more than 5 per cent above the average of the middle market quotation of an ordinary share of the Company taken from the Daily Official List of London Stock Exchange plc for the five business days immediately preceding the day on which the contract of purchase is made.

(iv) the Company may enter into one or more contracts to purchase ordinary shares under this authority before this authority expires which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contracts; and

(iv) this authority will (unless renewed) expire at the conclusion of the next annual general meeting of the Company held after the date on which this resolution is passed or, if earlier, twelve months from the date of passing of this resolution.

By order of the Board

Alec W.J. Banyard
Company Secretary
12 April 2007

Registered office
3 Colmore Circus
Birmingham
B4 6BH

Notes to the Notice of Annual General Meeting

1. A holder of ordinary shares who is entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company. A form of proxy is enclosed for use by shareholders. In order to be valid, an appointment of proxy must be returned by one of the following methods:

   1.1 in hard copy form by post, by courier or by hand to the address shown on the form of proxy;

   1.2 in the case of CREST members, by utilising the procedure set out below under the heading "FOR CREST MEMBERS ONLY".

   To be valid, proxies must be received not later than 48 hours before the Annual General Meeting. Ordinary shareholders who have lodged proxy forms are not thereby prevented from attending the meeting and voting in person if so desired.

2. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority is determined by the order in which the names of the holders stand in the register of members of the Company in respect of the joint holding.

3. The following documents, which are available for inspection during normal business hours at Minto Drive, Altens, Aberdeen AB12 3LW (Saturdays, Sundays and public holidays excepted) will also be available for inspection at the place of the Annual General Meeting from 10.45am on 23 May 2007 until the conclusion of the Annual General Meeting:

   3.1 The register of interests of the directors (and their families) in the share capital of the Company;

   3.2 Copies of all directors' service contracts and contracts of appointment between the directors and the Company; and

   3.3 The rules of The Abbot Group Annual Share Bonus Plan.

   In addition, copies of the Articles of Association will be available for inspection at Minto Drive, Altens, Aberdeen, AB12 3LW and at the offices of the Company's solicitors, Pinsent Masons, CityPoint, One Ropemaker Street, London, EC2Y 9AH during normal business hours (Saturdays, Sundays and public holidays excepted) from the date of this Notice until the close of the Annual General Meeting.

4. Pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 6.00pm on 21 May 2007 (being not more than 48 hours prior to the time fixed for the Annual General Meeting) or, if the Annual General Meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Annual General Meeting.

For CREST members only
CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 23 May 2007 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in this notice of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members, and where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal systems, timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate Information

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